Aalto University
School of Business

THE FOREIGN FOUNDER'S LOCATION CHOICE FOR AN INTERNATIONAL NEW VENTURE

Startup Estonia: A foreign founder's perspective

Master's Thesis
Linda Mattila
Aalto University School of Business
Global Management
Fall 2019

Aalto University
School of Business

Aalto University, P.O. BOX 11000, 00076 AALTO
www.aalto.fi

Abstract of master's thesis

Author Linda Mattila

Title of thesis The foreign founder's location choice for an international new venture

Degree Master of Science in Economics and Business Administration

Degree programme Global Management

Thesis advisor Perttu Kähäri

Year of approval 2019 **Number of pages** 108 + 2 **Language** English

Abstract

The increasing popularity of startup visas worldwide provides startup founders with a location choice. By making a location choice, founders hope to get access to better entrepreneurial ecosystems, international financing opportunities and global networks. While the majority of location choice research is in the scope of MNEs, in this thesis a theoretical framework for the foreign founder's location choice is compiled. This framework combines location choice factors from the OLI paradigm, transaction cost economics and the institutional environment and embeds them in the entrepreneurship process for a foreign founder.

This study applies qualitative research methods and collects data through in-depth interviews with eight startup founders from Startup Estonia, which initiated startup visas in 2017. In addition, data is collected from Startup Estonia's programme manager and from public sources, such as from the founder's LinkedIn and startup homepages as well as from global entrepreneurship reports (GEM, GEDI, World Bank). The interview data is analysed using thematic analysis, exploring the location choice factors from the theoretical framework, after which it is triangulated using external data sources (webpages, entrepreneurship reports). The data analysis provides eight themes that emerged as relevant when foreign founders made the location choice of Estonia.

This thesis contributes two main findings. First, the embedding of an iterative location choice into the entrepreneurship process of a foreign founder. The founder is willing to make new location choices as he progresses on the entrepreneurship process, reflecting a more flexible approach towards location choice than what is expected from the literature review. Second, awareness about the impact of the digital ecosystem on the perceived institutional distance of locating. Locating to a new environment is made easier for founders, as the digital ecosystem and digital services reduce the adjustment costs experienced in the new location.

Policy-wise, this study provides a better understanding of Estonia's locational advantages that should be highlighted when trying to attract foreign founders to Estonia. These are Estonia's digital identity and digital ecosystem as well as the unrestricted talent hiring worldwide. Suggestions for startup visa programme improvement are supporting outsourcing possibilities, improving non-digital bureaucracy, while also providing better access to financial investment opportunities.

Keywords location choice, global startup, INV, entrepreneurship process, digital ecosystem, startup visa, Startup Estonia

Aalto-yliopisto
Kauppakorkeakoulu

Aalto-yliopisto, PL 11000, 00076 AALTO
www.aalto.fi

Maisterintutkinnon tutkielman tiivistelmä

Tekijä Linda Mattila

Työn nimi Sijaintipaikan valinta ulkomaalaisen yrittäjän startup-yritykselle

Tutkinto Kauppatieteiden maisteri

Koulutusohjelma Global Management

Työn ohjaaja Perttu Kähäri

Hyväksymisvuosi 2019 **Sivumäärä** 108 + 2 **Kieli** englanti

Tiivistelmä

Startup-viisumien kansainvälinen menestys antaa startup-yrittäjille mahdollisuuden valita uuden yrityksensä sijaintipaikka. Ulkomaalainen yrittäjä toivoo näin pääsevänsä hyvään yrittäjyysekosysteemiin ja siten lisää resursseja liiketoimintansa kasvattamiseen. Aiempi tutkimus on tarkastellut sijaintipaikan valintaa kansainvälisten suuryritysten näkökulmasta. Tämä tutkielma esittää teoreettisen viitekehyksen ulkomaalaisen yrittäjän sijaintipaikan valinnalle. Tässä viitekehyksessä yhdistetään yrittäjyysprosessiin ne sijaintipaikan valintaan vaikuttavat tekijät, jotka on esitetty OLI-paradigmassa, transaktio-kustannusteoriassa ja institutionaalisessa teoriassa.

Tutkimus pohjautuu laadulliseen tutkimusmenetelmään ja empiirinen aineisto on kerätty henkilökohtaisten haastattelujen avulla. Tutkimuksessa on haastateltu kahdeksaa ulkomaalaista yrittäjää, jotka ovat saaneet Startup Estonia -ohjelman kautta startup-viisumin Virosta. Lisälähteinä toimivat julkiset yrittäjyysraportit (GEM, GEDI, Maailmanpankki) sekä yrittäjien LinkedIn- ja yritysverkkosivut. Tutkimusaineisto on analysoitu teemoittain teoreettista viitekehystä hyödyntämällä. Analyysin perusteella esitetään kahdeksan teemaa, jotka ovat tärkeitä kuin ulkomaalainen yrittäjä valitsee sijaintipaikan startup-yritykselleen.

Tutkimustulosten perusteella voidaan todeta, että ulkomaalaisen yrittäjän sijaintipaikan valinta on iteratiivinen osa yrittäjyysprosessia. Yrittäjä saattaa tehdä useampia päätöksiä sijaintipaikasta voidakseen edetä yritysprosessissaan, mikä viittaa joustavuuteen sijaintipaikan valinnassa. Tulokset osoittavat myös, että digitaalinen startup-ekosysteemi edesauttaa ulkomaalaista yrittäjää hakeutumaan Viroon, sillä digitaalinen startup-ekosysteemi ja digitaaliset palvelut helpottavat startup-yrityksen asettautumista uuteen ympäristöön.

Tutkimuksen tulokset osoittavat, että herättääkseen enemmän kiinnostusta ulkomaalaisissa yrittäjissä, Startup Estonia -ohjelman kannattaisi korostaa digitaalista identiteettiä ja digitaalista startup-ekosysteemiä, sekä mahdollisuutta palkata myös Euroopan Unionin ulkopuolella olevia työntekijöitä. Parannusehdotukset ohjelmalle ovat ulkoistamispalveluiden tukeminen, hallinnollisten prosessien selkeyttäminen ja rahoitusmahdollisuuksien lisääminen.

Avainsanat sijaintipaikan valinta, INV, kansainvälinen startup-yritys, yrittäjyysprosessi, digitaalinen startup-ekosysteemi, startup-viisumi, Startup Estonia

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

"We need a simple solution. Where we can just go and incorporate a company and focus on our technical part. And the rest should be handled".

- Location choice, by a foreign founder of Startup Estonia

1. INTRODUCTION

A startup founder with a great entrepreneurial idea has today an array of locations to choose where to establish a business. Governments offer limited duration startup visas to foreign talent with the ambition to host the next startup success story. But where do these startups go and how do they make a location choice? To approach answering this question, this master's thesis is examining the founders of Startup Estonia, where startup visas have been issued since 2017. Estonia offers an advanced digital ecosystem in the North-Eastern part of Europe. Throughout this thesis, startups are being referred to as international new ventures (INVs), to fit the relevant stream of literature.

1.1 Background and research problem

The founder of the international new venture of today is not dependent on a specific location to reach and conduct business on the global marketplace (Oviatt and McDougall, 1994). An international new venture (INV) is by definition international from inception. This INV is able to demonstrate remarkable international success, despite its young age and small size (Oviatt and McDougall, 1994). In the literature they are sometimes also referred to as global-startups, born-globals or new-technology-based firms. The founder of this type of venture is thus permitted liberties regarding his location choice and the exploitation of entrepreneurial opportunities from all over the world (Shane, 2003). If certain locational advantages are more conducive towards startup success, then why would the international startup stay in a sub-optimal business environment? This type of entrepreneur is a foreign founder, who is characterised by the desire to emigrate to a foreign location to exploit a business opportunity (Efendic, 2016).

In the past, only large multinational enterprises (MNEs) were able to exploit their size and competitive resources to make location choices that would permit them to engage in international operations (Porter, 1990). Today, technological advances in transportation, communication and production have brought about new market conditions, in which even smaller startups, such as INVs, are able to be part of global contractual-based value chains (Buckley and Ghauri, 2004). Efficiencies in communication and transportation have decreased the costs of international interchange (Porter, 1990). Similarly, the possibilities brought about by digitalisation and electronic networking enable people to connect, access information and pursue opportunities even at distant locations (Dunning, 2009). Markets are becoming increasingly accessible, while also providing new niche opportunities and enabling global sourcing structures (Rialp, Rialp and

Knight, 2005). Lastly, also peoples' capabilities, their mobility and international business experiences are evolving, making entrepreneurs more adept in linking resources from multiple countries to quench new market demands (Oviatt and McDougall, 1994). These trends provide individual founders with greater capability and liberty to start a new business venture anywhere in the world, in a business environment that is considered suitable for one's venture (Oviatt and McDougall, 1994).

The emergence of founders that emigrate to foreign locations is pushed by the booming global competition for talented and high-potential entrepreneurs (Smale, 2015). Governments aim to attract and support high-quality and high-growth startups that are responsible for large amounts of wealth and job creation (Shane, 2009). To attract these high-potential founders to a location, governments offer entry and support structures in their own domestic markets. Incentives for entry are for instance limited residence permits and incubator-facilitated support, such as financial subsidies (Efendic, 2016). *Startup visas* are visas of a limited duration that are intended for immigrant entrepreneurs with limited personal wealth, education and entrepreneurial experience (Volchek, Efendic and Terjesen, 2016). These limitations deter potential startup entrepreneurs from receiving a traditional business immigrant visa, since these typically require a considerable amount of capital before venture creation (Ley, 2003). Therefore, startup visas enable foreign founders to exploit entrepreneurial opportunities in foreign locations. Nevertheless, the conditions for visa extension are dependent on the ventures' success and growth (Volchek, Efendic and Terjesen, 2016). Today, startup-visas exist in 15 OECD[1] countries. Estonia initiated startup visas in January 2017 (Startup Estonia, 2017), while Finland did so in April 2018 (Business Finland, 2018).

The current trend of startup visas and their increasing popularity to attract foreign founders to a specific location, directs attention towards the location choice of foreign founders. It is imperative to understand how foreign founders make their location choice so that the best talent could be attracted to a specific location. While most entrepreneurs create their venture close to home where they can take advantage of social capital and their networks (Dahl and Sorenson 2009, 2012; Zhang, 2004), foreign founders move to a location where they suffer the liability of foreignness

[1] Australia, Canada, Chile, Denmark, Estonia, Finland, France, Ireland, Italy, Lithuania, Netherlands, New Zealand, Spain, South Korea, UK (Table 3, p.51)

(Zaheer, 1995). This affects the firm's operational expenses and their ability to survive (Sapienza, Autio, George and Zahra, 2006). Nevertheless, these foreign founders move because they have perceived an opportunity to bundle resources from multiple countries more efficiently, while also developing their international network. Building an international network in turn helps them in acquiring additional resources (Oviatt and McDougall, 1994).

Location choice is typically studied within the scope of MNEs (Dunning, 1980; Buckley and Casson, 1976; Dunning and Lundan, 2008; Nielsen, Asmussen and Weatherall, 2017). However, little is known about what makes the founders of INVs move and where. Already Coeurderoy and Murray (2008) noticed that foreign market selection of INVs remains largely unexplored. They responded by demonstrating that a well-functioning regulatory environment of a country is important from a copyright and venture survival perspective (Coeurderoy and Murray, 2008). Stenholm, Ács and Wuebker (2013) on the other hand mention that for high-growth new ventures an institutional environment with knowledge spillover opportunities and available capital are more important than the regulatory environment. Moreover, Dunning (2009) proclaims that in knowledge-intensive industries, as for INVs, the content and quality of a country's intellectual property rights and innovation systems play a significant role for location attractiveness. However, these claims only give us hints about the locational advantages that might be attractive for the foreign founder, especially those that locate to a foreign country on a startup visa. Volchek, Efendic and Terjesen (2016) have indicated that policy offerings for startup visas need to fit with the INV's resources and capabilities, since this is a decisive venture success factor. This implies that the INV's ability to develop resource-bundles in the foreign location might be a critical contributor to the foreign founder's location choice. In light of this information, targeted research into the locational needs of INVs and how these needs are directed by resource-bundling concerns, can help to acquire a better understanding of the locational advantages that attract foreign founders.

1.2 Research objectives

The primary objective of this study is to give insights into the factors that are considered important when foreign founders make a location choice for their INV. The aim is to understand how foreign founders make their location choice and how location choice theories of MNEs and other entrepreneurs can help to understand this. By investigating the location choice of foreign founders of Estonia, this thesis provides an understanding of the locational advantages that foreign founders

consider important when locating to a new location. This insight can help governmental programmes and policymakers make their location more attractive for high-impact foreign startups and thus contribute to the attraction of entrepreneurial talent and foreign investments into a country. Attracting foreign ventures has a significant impact on the economic growth of the host country (Efendic, 2016), especially through the knowledge that they bring and their propensity to innovate (Audretsch and Keilbach, 2008).

The second objective is to highlight the foreign founder's location choice and differentiate it from that of other entrepreneurs, such as immigrant entrepreneurs (Efendic, 2016). This can be achieved by embedding the location choice into the overall entrepreneurship process (Shane, 2003) of the INV. This objective is driven by the presupposition, that foreign founders of high-growth and high-impact ventures have a different, potentially more strategic, approach to location choice than other entrepreneurs. This assumption is based on the INV's aim for global operations (Startup Estonia, 2019) and the INV's more strategic internationalization process, in which learning opportunities and the development of entrepreneurship characteristics are accentuated in the location choice to succeed in international markets (Jantunen, Nummela, Puumalainen and Saarenketo, 2008). In addition, the startup visa eligibility requirements encourage strategic actions from each individual founder, as an extension of the visa necessitate the INV to be internationally scalable as well as deliver sales and jobs to the host country (R. Riistop, personal communication, October 18, 2017). Thus, a research assumption is that these circumstances necessitate different priorities when the foreign founder makes a location choice. These priorities would therefore differ from that of other entrepreneurs, which typically have small consideration sets, demonstrate satisficing behaviour and frequently discover locations by chance and not systematically (Berg, 2014).

A third research objective is to make observations about how the transaction costs (Williamson, 1979) of locating to Estonia are overcome by foreign founders. INVs are *"international from inception"* (Oviatt and McDougall, 1994) and they display certain accelerated internationalization skills (Weerawardena, Mort, Liesch and Knight, 2007). Thus, this study aims to uncover whether these INVs in fact show certain special capabilities that permit their easy transition into a foreign location and a thereby a more rapid internationalization process. Or, if alternatively there are certain locational advantages in Estonia, by which this locating process is made easier (Zhao, Luo and Suh, 2004). In this thesis, observations can be made about the foreign founders' perception of

how high the transaction costs of locating to Estonia are and by what means the founders overcome the hurdles of locating to Estonia. Thus, the research question for this thesis is the following.

> *What are the factors of the foreign founder's location choice and how do these impact the entrepreneurship process?*

1.3 Research context and methods

Startup Estonia initiated its startup visa programme in 2017 and has since been attracting foreign founders to come and establish their INV in Estonia. Startup Estonia is chosen as a research context for this master thesis. This setting permits access to a relatively homogenous sample of foreign founders that have recently chosen Estonia as the location for their INV. Estonia is interesting as a research context because besides the startup visa, it has also established the e-residency in 2014 (Prisco, 2014). This enables foreign founders to have an Estonian digital identity, by which they can work on their Estonian startup and digitally sign contracts in Estonia, while being physically anywhere in the world. Estonia's advanced digital infrastructure can thus influence the foreign founder's location choice.

This master thesis applies qualitative research methods, which are especially useful to promote understanding on contemporary phenomena in which complex interrelationships exist (Stake, 1995). The thesis aims to promote understanding of the foreign founder's location choice in the entrepreneurship process and the factors which influence this choice. Little is known about this research issue, due to which this study is an exploratory qualitative research to formulate insights, which can then be tested quantitatively in further research. The data for this qualitative research is collected using eight semi-structured interviews with foreign founders that have come to Estonia.

Thematic analysis is applied to analyse the interviews, for which theoretical insights are derived from MNE location theory and the entrepreneurship process. In detail, the theories of eclectic paradigm (Dunning, 1980), transaction costs (Williamson, 1979) and institutions (Scott, 2008) are used to explain and inform the location choice factors of foreign founders of INVs. Moreover, by differentiating between the general entrepreneurship process (Shane, 2003) and the ones for immigrant entrepreneurs (Vinogradov and Elam, 2010) and foreign founders (Efendic, 2016), the role of the foreign founder's location choice is identified within the foreign founder's entrepreneurship process. These theories are especially suitable for the research, because they help

to illustrate how international resource-bundling can affect how the founder perceives the locational advantages and transaction costs in a foreign location.

This thesis determines managerial and policy implications for those involved in Estonia's startup visa programme, while also contributing to the discussion on foreign founders of INVs with two main findings. One, is the embedding of the location choice into the entrepreneurship process with the realization that the location choice can be an iterative process for the foreign founder. In this, a founder's location choice can be re-evaluated as the INV progresses in the stages of the entrepreneurship process. The second finding is awareness about how the digital ecosystem in Estonia influences the perceived institutional distance (Kostova, 1999) and transaction costs (Williamson, 1979) of locating. Having a digital identity and a smooth digital ecosystem seems to make it easier for foreign founders to locate to a foreign location, by reducing the adjustment costs that founders have to pay in the new location (Johanson and Vahlne, 2009).

1.4 Thesis structure

This master's thesis comprises seven chapters. The first chapter provides the introduction to this thesis, where the background to the study is conveyed, a research problem is described and the research objectives are specified. The literature review in the second chapter gives an overview of the literature regarding location choice theories and the entrepreneurship process for INVs. The literature review closes with a theoretical framework. In the third chapter, methodological choices and limitations for the thesis are delineated. The research context in the fourth chapter gives information about startup visas, the Startup Estonia programme and the startup ecosystem in Estonia as well as descriptions about the interview participants. The research findings are presented in the fifth chapter and discussed in the sixth chapter. This thesis closes with a conclusion in the seventh chapter, which announces the main contributions, practical implications and suggestions for further research.

2. LITERATURE REVIEW

This literature review concentrates on establishing a theoretical framework by which the location choice of foreign founders of INVs can be understood within the entrepreneurship process. This is approached by outlining different location choice factors in the first section, which demonstrate the theoretical themes that could influence the location choice of INVs. In the next section, the literature review introduces the entrepreneurship process and differentiates between the process for immigrant entrepreneurs and foreign founders. The final section provides a theoretical framework for this thesis, in which the location choice and its aspects of resource-bundling, transaction costs and institutional conduciveness are embedded within the entrepreneurship process for foreign founders.

2.1 Location choice of foreign founders for international new ventures

Location choice is a well-established concept in the academic literature when determining how multinational enterprises (MNEs) make a location choice for foreign direct investment (FDI) purposes (MNEs (Dunning, 1980; Buckley and Casson, 1976; Dunning and Lundan, 2008; Nielsen, Asmussen and Weatherall, 2017). Typically, firms enter foreign markets to seek for new markets, resources, strategic assets or efficiencies (Dunning, 1998). Today however, location choice research is influenced by the emergence of new players and new forms of cross-border FDI, where the theories created for MNEs need to be refocused to match these new circumstances. New forms of cross-border FDI are, e.g. private equity capital, diaspora investment, sovereign wealth funds, but also the activities by foreign born-global investors (Dunning, 2009).

Also foreign founders today have a location choice, as many countries have favourable visa conditions for high potential startups (Smale, 2015). These founders create business organizations which seek international operations almost immediately after being founded (Knight and Cavusgil, 2004). When these foreign founders initiate operations abroad, they are faced with challenges, such as asset parsimony (Cavusgil and Knight, 2015) as well as lacking knowledge and networks in the new location (Efendic, 2016). Thus, they will display particular needs that will determine the locational advantages that they find attractive (Dunning, 2009).

This section presents relevant theories and their location choice factors for INVs. First, the eclectic paradigm (Dunning, 1980) and its directions for resource-bundling in an international environment are explained. Next, transaction cost theory (Williamson, 1998) demonstrates approaches to how

transaction costs can be carried in a foreign environment. Lastly, institutions (Scott, 2008) and the effect of institutional distance and conduciveness on the location attractiveness is outlined. These theories highlight different, but complementary perspectives on location choice. Knowledge spillovers and clusters (Alcácer and Chung, 2007) were also considered in this thesis, as developing dynamic learning capabilities (Weerawardena, et al., 2007; Jantunen, et al., 2008) and a reliance on technological superiority in a specific niche (Cavusgil and Knight, 2015) are important for INVs. However, as they did not emerge in the empirical data collection, they were left out of the thesis.

2.1.1 Resource-bundling in an international environment

According to the resource-based view of firms (Barney, 1991) resources are defined as: *"all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness"* (Barney, 1991, p. 101). In this view, firms are able to create resource-bundles that can provide a basis for competitive advantage, as long as these bundles are valuable, rare, inimitable and not easily substitutable (Barney, 1991). International new ventures (INVs), as a type of firm, are defined as *"business organizations that from inception, seek to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries"* (Oviatt and McDougall, 1994, p. 49). This implies that INVs use accelerated internationalization, to bundle efficiently the resources from different markets, which ultimately gives them their competitive edge. The defining characteristic of INVs is their accelerated internationalization (Weerawardena, et al., 2007). Rapid internationalization enables INVs to gain new knowledge to keep their technologies cutting-edge (Zahra and Bogner, 2000; Zahra, Matherne and Carleton, 2003) as well as provides access to new resources (Freeman, Hutchings and Chetty, 2012) and a means to protect innovations, e.g. by locating to locations with better intellectual property laws (Zahra, Matherne and Carleton, 2003).

To clarify how the INV's resources influence the need for specific locational advantages, the eclectic, or Ownership, Location, Internalization (OLI) paradigm is employed (Dunning, 1980). This paradigm helps to understand the different determinants of the factors that culminate into the location choice of firms (Dunning, 2000). In general, three conditions must be met simultaneously so that a firm would engage in operations in a location other than its home country (Dunning,

1980). First in the O variable, the firm needs to possess resources, or ownership advantages, that competing firms in the foreign market do not have. Second for the L variable, it should be more lucrative to bundle the firm's own resources with those of the foreign location than with those of the home location. And thirdly for the I variable, it should be more profitable for the firm to use these resource-bundles itself (i.e. internalize) instead of selling or externalising them (Dunning, 1980). These three variables and their applicability to INVs is discussed next.

Ownership advantages are the set of competitive advantages that the foreign firm has compared to other competitors in the foreign location (Dunning, 2000). These have two inputs, which the firm can make more valuable. First, location-specific advantages which are available for all, such as natural resources, market structures and the availability of labour. And second, the technology and organizational skills that the firm shapes and acquires for itself, e.g. patents (Dunning, 1980). While after the 1970s, ownership advantages focused on the creation of proprietary assets to match market needs, the emphasis today is on the development of dynamic capabilities (Weerawardena, et al., 2007) with which knowledge-intensive resources from around the world can be accumulated and effectively bundled with existing competitive advantages (Dunning, 2000). This incentivises firms to engage in foreign activities in order to protect, develop and exploit ownership-based advantages (Dunning, 1995).

INVs typically have scarce human, financial and tangible resources (Weerawardena, et al., 2007). Nevertheless, INVs are able to leverage their knowledge-based resources, i.e. capabilities, knowledge and innovativeness, to become successful in their home and foreign markets (Knight and Cavusgil, 2004). Leveraging is the creative use of existing resources to achieve one's goals (Zahra, Matherne and Carleton, 2003). Thus, INVs are able to leverage, or bundle, their resources in such ways that ownership advantages can be created. The inherent capabilities and strengths that INVs use to shape these ownership advantages are, e.g. a strong international entrepreneurial orientation, unique and differentiated offerings, effective network-building, dynamic learning capabilities and a strong focus on innovation (Cavusgil and Knight, 2015).With these advantages, they are able to develop highly innovative and knowledge intensive services and products (Weerawardena, et al., 2007) that are characterized by their leading designs in a specific product or market niche (Madsen and Servais, 1997). Indeed, the knowledge that INVs possess, permits them to overcome the liability of foreignness (Zaheer, 1995), by pursuing differentiation or cost

advantage strategies (Oviatt and McDougall, 1994). Moreover, since this bundling allows for unique combinations, the emerging resource-bundle is in effect difficult to imitate or substitute (Zahra and Nielsen, 2002), serving as a good foundation for developing a competitive advantage.

The fact that INVs rely on knowledge-based capabilities to overcome resource restraints and enable international operations (Cavusgil and Knight, 2015), demonstrates that INVs predominantly use their organizational capabilities as ownership advantages, which can also be called knowledge-based ownership advantages. However, when a firm locates to a new location, the ownership advantages are reconfigured in as much as they are bundled with the new locational advantages. The ownership advantages that the firm can develop from the location are hence locational or institutions-based ownership advantages (Dunning and Lundan, 2008). These warrant a closer inspection of the L variable of the OLI paradigm, for which institutions are typically considered (Dunning and Lundan, 2008).

The location variable proclaims that the more suitable the locational attributes are for the firm's ownership advantages, the more likely a firm is to engage in foreign activity and perceive these attributes as locational advantages (Dunning, 2000). The individual needs and motives for engaging in foreign operations (e.g. market-seeking, resource-seeking, efficiency-seeking, strategic asset-seeking), also strongly affect the attractiveness of locational advantages in a foreign location (Dunning, 1998). Locational advantages include a country's comparative advantage, or its unique set of *natural* resources or capabilities, such as factor endowments, demand patterns and cycles (Dunning, 2000). In addition, the location-bound *created* assets, which a firm can bundle to complement its own core competencies are also potential locational advantages (Dunning, 2000). These are, e.g. the organizational knowledge, practices or patents that a firm creates when operating abroad. This highlights that firms should possess organizational capabilities adept in bundling the locational advantages with their own ownership advantages, or possess sufficient absorptive capacities (Cohen and Levinthal, 1990), since the mere firm presence in a foreign location does not necessarily result in more competitive ownership advantages.

Moreover, according to Hennart (2009) it is uncertain to what extent foreign firms can get access to *natural* location-specific advantages, such as natural resources and low-cost labour. Access to these might be restricted by high entry barriers and institutional structures (Hennart, 1991). For this reason, INVs location choice can be strongly influenced by its networks, since these facilitate

resource access and therefore offer the INV means to overcome its foreignness and newness in a location (Coviello, 2006). Nevertheless, when INVs do not have existing networks in the foreign location, the location-specific advantages that INVs target might be different. This directs the research to focus on the type of *natural* location-specific advantages that INVs are able to access as well as the means of bundling these, e.g. by locating to clusters or to institutionally conducive locations. This line of reasoning is aligned with Dunning's idea (2009) of particular locational needs for INVs, where location choice could be made in favour of those locations where the INV is able to access the necessary location-specific advantages.

Internationalization of operations is then attractive for foreign firms when the transaction and coordination costs of using owned operations in the foreign location are lower than other arrangements, e.g. licensing (Dunning, 2000). According to Faeth (2009) internalisation is especially attractive for firms with higher research-, technology- or marketing intensive approaches, as this improves quality control of products and helps in avoiding technology imitation. When relying on the externalization of operations, the peril of outward knowledge spillover is high (Nielsen, Asmussen and Weatherall, 2017). This means that the knowledge and capabilities, which could in fact be used as ownership advantages, are jeopardized. In particular for INVs, which rely strongly on their innovative offering and specialised organizational capabilities (Cavusgil and Knight, 2015) as their ownership advantages, high internalisation can be postulated to be taking place. However, due to their poverty in resources and power, INVs might not have the necessary means to own all valuable assets themselves. Thus, according to Oviatt and McDougall (1994), INVs are forced to seek out alternative modes of controlling the vital assets, even when this is at the high risk of asset expropriation. A potential resource-conserving alternative would be the employment of intimate network alliances, where trust and the need to uphold one's reputation lead to a better conservation of proprietary knowledge, than through other forms of partnerships (Oviatt and McDougall, 1994).

To conclude, the ability to create high ownership advantages in a location is dependent on the INV's selection of locational advantages and its ability to bundle these efficiently. However, it remains to be observed if knowledge-intensive assets of INVs are effective enough to serve as competitive ownership advantages in the new location. Moreover, the strategies to gain access to

locational advantages, for instance through industrial clusters or institutionally attractive locations, provides further understanding of how INVs make a location choice.

2.1.2 Managing transaction costs in a foreign location

The transaction cost perspective provides insights into two different approaches on how an INV can deal with transaction costs when making a location choice and entering a foreign market. This is established by first discussing the main transaction cost assumptions and theoretical mechanisms, after which the transaction cost mitigation and transaction cost surpassing approaches and their implications for INVs are presented.

Firms enter foreign markets to seek for new markets, resources, strategic assets or efficiencies (Dunning, 1998). However, when a firm begins operations in a foreign market, it is at a disadvantage compared to local firms. This circumstance has been called the liability of foreignness (Zaheer, 1995) and can be observed for instance, by foreign firms not having as good contacts or knowledge as locals, while also being subject to penalties from institutions and governments (Hennart, 1991). This means that a foreign firm undergoes additional costs that it needs to pay when it operates in a foreign location. These costs can be described as transaction costs, which incur in any kind of contracting problem (Williamson, 1998). In this case, the costs arise by organising operations and entry into a foreign market. Transaction costs have been recognized to be a major determinant of the firm's decision to internalize and thus the consequent entry mode organization (Zhao, Luo and Suh, 2004; Dunning, 2000). The applicability of transaction costs to the location choice decision has been recognized, due to their intertwined nature, as can be seen in the OLI paradigm (Dunning, 1980; Demirbag, Tatoglu and Glaister, 2010).

Transaction costs are the costs of organizing interdependencies between agents (Hennart, 1991). These would not exist if humans would have perfect knowledge and perfect honesty, because then, uncertainty about the existing price system would not exist and the organization of interdependencies would be costless (Hennart, 1991). Thus, transaction costs are created, because bounded rationality and opportunism make the price system inefficient, which makes all transactions inherently incomplete (Williamson, 1998). This enables firms to make a profit from market inefficiencies (Shane and Venkataraman, 2000) and thus makes it also lucrative for them to locate into foreign markets to exploit those inefficiencies, e.g. by better bundling ownership and

locational advantages. Conceptually, bounded rationality means that individuals have limited knowledge and intellectual capabilities, due to which it is impossible for them to act rationally (Simon, 1955; Williamson, 1998). This leads to imperfectly measured prices and flawed signals, which then results in transaction costs (Hennart, 1991). Opportunism, on the other hand, refers to the belief that humans act out of self-interest and thus cannot be expected to act for the welfare of others (Williamson, 1998). These assumptions are the conditions for transaction costs to exist.

The assessment of transaction cost then deals with determining the cost and efficiency of a transaction. The costs can be divided into market-related transaction costs and internal organizational costs (Hennart, 1991). Market transaction costs accumulate from the costs of information-seeking, enforcement measures and bargaining needs, while the internal organizational costs stem from organizing hierarchies (Williamson, 1979; Hennart, 1991) to offset inefficiencies, e.g. to monitor employees. This demonstrates that transaction costs arise from lacking market knowledge and unfamiliar customs externally, while also manifesting themselves internally in the operations of the firm. For an INV, internal organizational costs include the costs of traversing institutional distance to make effective management decisions (Dunning, 2000; 2009). However, due to small firm size and a limited number of employees these organizing costs should be moderately low. The market transaction costs then could be very high, since the INV does not necessarily have prior business partners or alliances, which would facilitate the search for clients and business partners in the foreign location.

The key determinants of transaction cost efficiency are uncertainty and asset specificity (Zhao, Luo and Suh, 2004). Internal uncertainty manifests itself when a firm is unable to accurately assess its performance in the new environment, which makes expectations about the performance levels unfeasible (Anderson and Gatignon, 1986). In addition, internal uncertainty is also caused by limited firm experience and lacking knowledge about the foreign market (Zhao, Luo and Suh, 2004). External uncertainty, on the other hand, arises due to the volatility of the environmental variables in the host country (Hill and Kim, 1988), which makes planning and strategic goal setting difficult. External uncertainty can also increase the costs of operations, for example by increasing litigation fees to make up for limited legal protection.

Asset specificity then refers to the resources and their particular suitability to the transaction as a resource-bundle. The resources that can help to overcome transaction costs are those that a firm

can use to differentiate its strategy and products from competitors in the new market (Zhao, Luo and Suh, 2004). These resources can be linked to the idea of ownership advantages (Dunning, 1980) and firm-specific capabilities (Zaheer, 1995), which is explained in the transaction cost surpassing approach (see p.15-16). Furthermore, specificity refers to the idea that an additional value exists in the tailoring of resources in this transaction, where an alternative use of the resources would result in lower value (Williamson**,** 1996). This is dependent on the bundling capabilities of the firm (Dunning, 1980).

A means through which an INV can both reduce costs and to keep the control over the INV is to implement high internalization (Anderson and Gatignon, 1986). Thus, the way in which an INV can deal with transaction costs, will help to determine into which foreign location they locate to, since it is assumed that an objective of the INV is to choose an environment in which the INV might survive and prosper. The two approaches of how INVs can deal with transaction costs are thus clarified in the following paragraphs.

The major approach that firms take when entering a new market is that of transaction cost mitigation (Zhao, Luo and Suh, 2004). This approach could be especially pertinent for smaller and newer firms as they do not yet have the means to pay high transaction costs due to financial and time constraints, nor can they be certain of high ownership advantages in the new location. When the foreign founders of INVs enter the new location, they have limited knowledge about the foreign location and its customs (Zaheer, 1995). Thus, they cannot gamble with having high ownership advantages, especially if their firm does not yet exist and they have little information about the new environment.

The assessment of transaction costs in foreign market entry stems from the comparison of different institutional environments (Williamson, 1979). Thus, the transaction costs they would need to pay are related to filling the knowledge gap, of knowledge possessed and knowledge needed about the new institutional environment, in order to create a viable business venture in a foreign location (Peterson, Pedersen and Lyles, 2008). Therefore, to minimize these transactions costs and reduce the knowledge gap, smaller firms prefer environments which are similar to their domestic ones and where they already have some knowledge about the environment (Lopez, Kundu and Ciravegna, 2009). Similarly, INVs would choose institutionally proximate markets (Freeman, Hutchings and Chetty, 2012), which are markets with similar legal and cultural environments,

since the transaction costs to adapt to a new environment are thus smaller. This exemplifies why it is more attractive for firms from environments with weaker economic institutions, such as from Brazil, to do business in less developed foreign markets as the transaction costs and perceived level of risk are smaller than for firms from strong economic institutional environments (Duanmu, 2014).

Thus, entering institutionally and culturally similar markets is one way in which INVs could mitigate transaction costs. Other ways to do so are, e.g. decreasing uncertainty by entering stable host countries and by possessing, or by being able to access, certain mediating factors such as prior experience, networks and incubators (Johanson and Vahlne, 2009). Stable host countries are those that are institutionally attractive and which possess well-functioning regulative environments. These are especially important for INVs from a business startup perspective and to protect their designs from imitators (Coeurderoy and Murray, 2008). Prior international knowledge of founders also enables faster adaptation to the new environment, which in turn mitigates transaction costs. The access to networks and incubators also works to mitigate transaction costs, by functioning as mediating factors that reduce outsidership and adjustment cost when entering a new location (Johanson and Vahlne, 2009). Therefore, these means to reduce uncertainty are significant in the perception of transaction costs in a new location.

The less established approach to deal with transaction costs (Zhao, Luo and Suh, 2004) would be to pay higher transaction costs under specific circumstances. This is mostly the case when the firm can exploit its resources, or when it pushes a specific locational strategy such as resource-seeking, market-seeking, efficiency-seeking or strategic asset-seeking (Dunning, 1998), which has a moderating effect on the perception of transaction costs (Zhao, Luo and Suh, 2004). This approach is linked with the utilization of resources and as already mentioned, the resources resulting in asset specificity can also result in ownership advantages. According to Dunning (1980) the ownership advantages should be high enough so that they outweigh the transaction costs of operating in the foreign location (Dunning, 1980). This is in line with the findings of Zaheer (1995), who found that imported capabilities, or firm-specific advantages, are in fact more effective in overcoming the liability of foreignness than merely imitating local practices via local isomorphism, as proclaimed by institutional theory (DiMaggio and Powell, 1983). This is, because the administrative capabilities of the firm depict how effective the firm is in dealing with local and

home market information as well as its knowledge (Zaheer, 1995). The administrative capabilities of the firm also affect how effectively the firm can couple locational advantages with firm-specific advantages (Zaheer, 1995), which has a consequence for the value derived from asset specificity. This line of reasoning is aligned with the idea of an optimal bundling strategy of firm-specific advantages with location advantages (Dunning, 1980), which means that not only can unique firm-specific advantages result in transaction cost efficiency, but so can the bundling of these resources do as well.

Therefore, if the expected profit, or advantage, in the new location environment outweighs the perceived level of risk and high transaction costs, then it might be attractive for INVs to consider a transaction cost surpassing approach. This is also the case when the firm pushes a specific strategy. For example, when firms from less-developed economies come to more developed economies, the move can also be seen to gain new assets and knowledge, instead of just exploiting an advantageous institutional environment and ownership advantages (Dunning, 1980; Demirbag, Tatoglu and Glaister, 2010; Li, Li and Shapiro, 2012**).**

For the INV this would mean that by having particularly suitable firm-specific capabilities and by coupling them effectively with locational advantages, it can overcome transaction costs more successfully. Surpassing high transaction costs is even more worthwhile when the INV can profit otherwise from entering this specific location, e.g. gain a strategic market, which could enable the internationalization into other markets. Moreover, as a side note, since these firm-specific advantages help in overcoming transaction costs, they are very valuable to the INV and should be safeguarded from imitation and opportunism. This is especially pertinent if the firm-specific advantages are proprietary and if the free-riding risk is high (Anderson and Gatignon, 1986). This leads to high degrees of integration and control (Teece, 1986) and consequently to high levels of internalization for the firm (Dunning, 1980). This also accentuates the importance of the regulatory environment (Coeurderoy and Murray, 2008) and the drawback of locational conditions where outward knowledge spillover is high, e.g. as it is in industrial clusters (Zaheer, Lamin and Subramani, 2009).

2.1.3 Institutions and their effect on location attractiveness

To understand what makes an environment attractive for FDI and conducive towards entrepreneurship, a call for better consideration of institutional influences has been made (Shane,

2003; Pajunen, 2008; Dunning and Lundan, 2008). Institutions exert influence over the commonly accepted practices and rules of society, because they shape the structure of economic, social and political incentives, as well as their enforcement mechanisms (Dunning and Lundan, 2008). Members of society need to adhere to these structures to receive legitimacy and support in an environment (Scott, 2001). Organizations need to receive legitimacy in order to ensure long-term survival (Kostova and Zaheer, 1999), which leads to limitations in strategic choices for organizations (DiMaggio and Powell, 1983). These limitations result in institutional isomorphism and conformity of practices, by which organizations develop structural similarities with each other (DiMaggio and Powell, 1983). This is also the case for entrepreneurial activities of foreign founders, where the foreign institutional environment creates "the rules of the game". The institutional environment therefore influences the entrepreneurial venture creation and the consequent organizational practices, such as organizational goal setting (Scott, 2001). This might incur additional adjustment costs when the difference between home and host institution is large (Johnson and Vahlne, 1977). In opposition, institutions can also reduce transaction costs by introducing a stable structure to facilitate operations and reduce uncertainty (Meyer, 2001). Nonetheless, before discussing institutional distance and its role in location choice, the institutional pillars (Scott, 2008) have to be introduced first to explain how institutions are organized and by which means they influence behaviour.

The institutional environment has been classified into pillars that: *"provide stability and meaning to social life"* (Scott 2008:48). These consist of the regulative, normative and cultural-cognitive pillars. The regulative pillar depicts how institutions constrain and regularize behaviour by encompassing regulatory processes, where conformity is mandated through practices such as rewards and punishments. Besides coercive measures, formal and informal laws help to secure compliance. The normative pillar, on the other hand, brings about a prescriptive and evaluative dimension to society, in which values, roles and appropriate paths are introduced. These dictate the expectations and constraints of people's behaviour and so organize society and everyone's responsibilities. Indeed, the normative and regulative pillars can be mutually reinforcing, where the use of regulatory power is legitimated and constrained by the normative environment (Scott, 2008). The cultural-cognitive pillar introduces shared symbols and cognitive frames into our daily lives through which social reality is perceived and information is consequently interpreted (Scott, 2008).

The impact of institutions on firm behaviour can be researched on a macro-level as well as on a micro-level (Dunning and Lundan, 2008). From a macro-perspective, the research interest lies in discerning the role of institutions for economic growth and the isomorphic effect that national-level institutions have on foreign and domestic firms (Audretsch and Keilbach, 2008). In comparison, micro-level research explores how firms gain legitimacy in the institutional environment and how the different incentive structures and enforcement mechanisms impact firm motivation and behaviour (Kostova and Zaheer 1999; Kostova and Roth, 2002). This thesis regards institutions from a micro-perspective on the firm-level, considering the specificity of the timing established by foreign founders. Here institutions affect the costs and benefits of operating in a foreign environment (Bailey, 2018). More specifically, the effect of institutional distance (Kostova, 1999, Xu and Shenkar, 2002) for INVs and the consequent location choice is discussed first. After this an institutionally attractive environment for INVs and its characteristics are examined.

Institutional distance

The institutional distance is the distance between two countries in regulatory, cognitive and normative institutional dimensions (Kostova, 1999). The smaller this distance is, the easier it is for a foreign firm to transfer its organizational practices into the new location, since the interpretation of institutional requirements and potential adjustments are more easily made (Kostova and Zaheer, 1999). This means that the institutional distance affects a firm's ability to transfer its firm-specific competitive advantages, or ownership advantages, to a new location. This is especially critical for foreign firms since they rely substantially on their ownership advantages (Dunning, 1980) to overcome the liability of foreignness (Zaheer, 1995) in the new environment. Therefore, when entering a foreign location, a firm can either choose institutionally similar locations, or then have abilities by which the negative impact from a large distance could be mitigated (Xu and Shenkar, 2002). First, institutional distance and its effect on institutional pillars is clarified. After this the impact of the institutional distance mitigation approach and the thus arising internationalization path is applied to the location choice of firms. Lastly, it is postulated, by focusing on an INV's firm-specific capabilities and its ownership advantages, why an institutional distance mitigation approach might not be attractive for INVs.

According to Xu and Shenkar (2002) institutional distance is transmitted on all three institutional pillars (Scott, 2008) and the institutional distance in each pillar has different effects for foreign firms entering a new location. The normative pillar has the highest impact on foreign firms, since it straightforwardly prescribes organizational goals and appropriate methods to achieve these (Xu and Shankar, 2002; Scott, 2008) and thus impacts the foreign firm's propensity to gain organizational legitimacy (Kostova and Zaheer, 1999). Therefore, when entering a location with high normative distance, the focus should be less on transferring existent firm routines, but instead on the absorption of local routines via institutional isomorphism, since this would support the foreign firm to gain legitimacy (Xu and Shenkar, 2002). Nevertheless, this might not be a problem for an INV, because when the foreign founder enters the new location, he is in fact forming a new firm. This means that he will not be transferring already existing organizational routines but will rather be transferring his own capabilities to a new location. He locates with the aspiration of being able to exploit these capabilities better, e.g. by bundling them with locational advantages, or by trying to improve them by absorbing institutional qualities.

While the normative dimension plays a role in determining if the foreign firm will gain organizational legitimacy in an environment (Kostova and Zaheer, 1999), the cultural-cognitive dimension then impacts the perceived similarity between institutions. This is, because it influences people's framework of meaning and how information is interpreted (Scott, 2008). Thus, cultural similarity, e.g. language, can act to alleviate negative aspects of institutional differences by reducing uncertainty and facilitating learning in the foreign location (Du, Lu and Tao, 2012). Lastly, for the perception of institutional distance on the regulative pillar, INVs have been shown to prefer a familiar regulatory environment and market structure, which would enable a more rapid location entry (Freeman, Hutchings and Chetty, 2012).

Through the influence of institutional pillars, institutional distance results in challenges for a foreign firm. A method to bypass these challenges would be to mitigate institutional distance by entering institutionally similar locations. This approach would lower transaction costs and enable a more rapid location entry. When a firm organizes its foreign market entry decisions by mitigating institutional distance, it can be described to implement a gradual approach to internationalization (Johanson and Vahlne, 1977). This internationalization path encourages initial foreign location choice towards institutionally and culturally similar markets, in which psychic distance can be

reduced (Johanson and Vahlne, 1977). The lower psychic distance mitigates the cost of adapting to a new environment, which principally results in less necessity to change management processes, while mitigating internal uncertainty and improving transaction cost efficiency (Zhao, Luo and Suh, 2004). Moreover, a gradual internationalization approach supports the transition from one institutionally proximate market to the next, each time acquiring more institutionally relevant knowledge and mitigating the uncertainty of foreign location entry and operation (Freeman, Hutchings and Chetty, 2012). Therefore, the country of the foreign location choice can be perceived as a "stepping-stone" to acquire more knowledge and international experiences, which in turn facilitates entry into further locations (Freeman, Hutchings and Chetty, 2012). Thus, according to this approach, location choice will be made by considering the institutional distance between home and destination location and the location's potential as a "stepping-stone" into new attractive locations. In fact, Blanc-Brude, Cookson, Piesse and Strange (2014) have found empirical evidence, by analysing the distribution of FDI across prefecture cities in China, that the geographic, economic and administrative distance to other attractive markets is an important influencer to firm location choice. This finding supports the notion that firms make their location choice by mitigating institutional distance and implementing a gradual approach towards internationalization.

For an INV, the institutional distance mitigation approach in foreign location choice could be attractive, since it reduces uncertainty and improves transaction cost efficiency (Zhao, Luo and Suh, 2004). It thus directs the INV's use of resources to more critical expenditures than, e.g. the additional costs arising from translations. Nevertheless, this depends on the INV's internal capabilities and objectives as well as their strategy towards internationalization, i.e. if they target gradual, exponential, or instantaneous internationalization. In fact, INVs are said to be international from inception (Oviatt and McDougall, 1994), but differences amongst them regarding the scope and speed of internationalization exist (Nordman and Melén, 2008). For instance, Lopez, Kundu and Ciravegna (2009) have observed smaller technologically oriented firms, which implement a more gradual and regional internationalization approach, while Freeman, Hutchings and Chetty (2012) have examined INVs which are able to internationalize much more rapidly than traditional internationalizing firms. For this, INVs are said to need certain firm specific characteristics, which allow them to operate globally from near founding and which would let them take advantage of multiple foreign locations (Weerawardena, et al., 2007). This

means that the INV's approach to internationalization and its supportive capabilities will thus influence the location choice that the INV can and will make.

The distinguishing factors that enable INVs to overcome institutional distance and which support a rapid internationalization process are mentioned to be a more proactive, aggressive and experiential learning approach and technological as well as international knowledge (Freeman, Hutchings and Chetty, 2012). This specific learning approach tolerates failure and is mostly driven through extensive engagement and experimentation, while being permitted by the INV's small size and flexible structure (Chetty and Campbell-Hunt, 2004; Freeman, Hutchings and Chetty, 2012). This approach to learning then facilitates access to and accumulation of technological and international knowledge, which is the second factor that enables the INV's more rapid and strategic approach to internationalization (Chetty and Campbell-Hunt, 2004; Jantunen, et al., 2008). In addition, one could postulate that when the INV's goal is to increase their learning possibility (Jantunen, et al., 2008), then institutionally distant environments are more attractive to the INV, since learning to operate in a very dissimilar environment would result in a remarkable increase in the INV's international capabilities. Similarly, institutions with advanced technological capabilities would be more attractive for INVs, since the potential development of their technological knowledge is increased by institutional isomorphism of those capabilities. This institutional isomorphism of attractive technological capabilities is enhanced by greater normative distance, since the higher distance mandates the adaptation of local practices to receive organizational legitimacy (Kostova and Zaheer, 1999).

International and technological knowledge are thus vital for INVs and varying orientations of this knowledge leads to different internationalization paths and opportunity discoveries (Nordman and Melén, 2008). For example, those INVs with both high international and technological knowledge are more proactive and rapid in their internationalization strategies, while firms with lacking international knowledge implement a more reactive approach of gradual internationalization (Nordman and Melén, 2008). International knowledge is thus used to mitigate the uncertainty and the resulting transaction costs when entering a foreign location and can be accumulated through experiences in foreign locations (Nordman and Melén, 2008). Technological knowledge, on the other hand, is also a key driver of INVs business performance (Knight and Cavusgil, 2005) and said to be three times more important for INVs than for traditionally internationalizing firms

(Freeman, Hutchings and Chetty, 2012). This is, because it provides the base for the INVs capability to develop and exploit its ownership advantages. The exploitation of technological knowledge also drives risk-taking behaviour, through the search for revenue streams from several markets and therefore affects the pace of internationalization (Nordman and Melén, 2008; Freeman, Hutchings and Chetty, 2012).

Searching for technological knowledge leads INVs to locations where the necessary human capital and technological infrastructure can be found and exploited. The potential target can be called the development of institutions-based ownership advantages (Dunning and Lundan, 2008). These institutions-based ownership advantages are difficult to capture and little is known about the mechanisms by which these advantages could be accessed or developed by the firm (Dunning and Lundan, 2008). Institutional advantages stem from the firm's internal corporate culture, but also its external institutional environment. This means that the reconfiguration of institutional advantages in the new location often depends on external demand and taste patterns. In essence, this demonstrates that the institutions-based ownership advantages that emerge are directly linked to shifts in values and perceptions due to the immersion into a new culture (Dunning and Lundan, 2008). The changes and developments of institutional advantages are therefore forms of resource and knowledge transfers, which arise due to the intentional transfer of institutional cognitions and practices, such as increased implementation of information technology (IT) practices, as well as the unintentional knowledge spillage from the environment (Dunning and Lundan, 2008).

According to Freeman, Hutchings and Chetty (2012) seeking technological knowledge in foreign markets would then result in the establishment of networks, which could be leveraged in order to gain international knowledge and insight into other foreign markets. This signifies that network establishment, for the purpose of technological knowledge accumulation, is then a driver for location choice and increased speed of internationalization (Zahra, Matherne and Carleton, 2003; Freeman, Hutchings and Chetty, 2012). Consequently, networks are of an important role for INVs, since they can direct their location choice (Bell, 1995; Sharma and Blomstermo, 2003) and reduce their outsidership and adjustment cost when entering a new location (Johanson and Vahlne, 2009). Moreover, networks facilitate resource acquisition (Shane, 2003), e.g. by providing access to distribution channels, information and support systems (Greve and Salaff, 2003) and by posing as an indicator of quality (see p.31), which help entrepreneurs in receiving investments (Shane, 2003).

In conclusion, by demonstrating internal capabilities adept in learning as well as in technological and international knowledge, INVs can approach their location choice, not by mitigating institutional distance, but by exploiting the institutional differences, in the hopes of increased learning potential, institutions-based ownership advantages and established networks. A great normative distance would contribute to forced isomorphism of potentially attractive local habits (e.g. technological aptitudes), due to which it would not discourage the location choice of INVs, in as much as local practices would benefit firm-capabilities. Small culturally cognitive distance would facilitate learning and understanding of information for INVs, but greater distance would provide the INV with more international knowledge, due to which the distance in the culturally cognitive dimension is considered to have a minor importance. A small regulative distance, on the other hand, is preferred, since it enables faster market entry and smaller adjustment costs (Freeman, Hutchings and Chetty, 2012). It is interesting to observe what role the home institution has for an INV's preference regarding the regulative dimension. Would INVs prefer the mitigation of regulative distance, irrespective of its quality, just as some MNEs from highly corrupt home-countries have been shown? These are found to not deterred or to even prefer highly corrupt host countries (Cuervo-Cazurra, 2006). Or, if in opposition a well-functioning regulative environment, irrespective of the INV's background, will be preferred? The characteristics of an attractive institutional environment for venture creation and foreign operations are discussed next.

Institutional conduciveness for the foreign founder's INV

Since foreign founders of INVs are starting a new venture and locating to a potentially more attractive location to do so (Efendic, 2016), institutional location attractiveness needs to be regarded from the perspective of FDI location attractiveness and its conduciveness towards entrepreneurial venture creation. Thus, these two different streams will be synthesized to find the factors that might make a location conducive for foreign founders of INVs. According to Shane (2003), the institutional environment impacts an individual's propensity to exploit an entrepreneurial opportunity through its economic, political and socio-cultural context. These have been organised as influencers to the opportunity exploitation phase of the entrepreneurship process model (Shane, 2003; see Figure 1, p.28). Similarly, institutional attractiveness has been found to be significant when attracting foreign firms to a country for FDI purposes (Bailey, 2018). In general, there is a view of "good" institutional drivers for FDI, such as political stability, correct judicial system, fair taxation, property rights and little corruption (Pajunen, 2008), but a lack of

consistency in empirical findings makes it difficult to shape a coherent picture of a "good" quality institutional environment. The sheer complexity of institutional influencers and the impact of different perspectives, arising either from different theoretical approaches or the comparison of different institutional environments and their institutional distances, results in many different findings, many of which seem to be in conflict with each other (Bailey, 2018). Nevertheless, to shape some kind of understanding over the topic, Bailey's (2018) meta-analytical review of 97 primary studies on institutional factors and FDI attractiveness is used, in which the determinants are those that arise most consistently in findings.

This study looks at the economic, political and socio-cultural influencers of the institutional environment primarily towards entrepreneurial conduciveness, but also by referring to its ability to attract foreign firms to engage in FDI. The economic and political context relate to the regulative pillar of an institution, while the socio-cultural context encompasses normative and culturally cognitive pillars. In general, the regulative dimension of institutions has been much more focused on to explain what makes an institution attractive for entrepreneurship and FDI (Trevino, Thomas and Cullen, 2008). Nevertheless, in Table 1 and in the paragraphs below it is demonstrated how the regulative dimensions both politically and economically shape the boundary conditions for the emergence of entrepreneurship and foreign operations, while the socio-cultural context supports the knowledge spillover potential (Audretsch and Keilbach, 2007) in an institution.

Table 1. Economic, political and socio-cultural factors influencing the conduciveness of an environment towards foreign founders of INVs (Shane, 2003; Nyström, 2008; Efendic, 2016; Ács, Szerb and Lloyd, 2017; Bailey, 2018; Singer, Herrington and Menipaz, 2018)

Economic	Political	Socio-cultural
Capital availability	Political stability and freedom	Social desirability of entrepreneurship
Economic stability and freedom	Secure rule of law and property rights	Available role-models and human capital
Low taxation and bureaucracy	Democratic institutions and decentralization of power	Entrepreneurship programs
	Supportive entry regulations	

In the economic environment, a location's economic stability and freedom, capital availability as well as its taxation and bureaucracy levels impact the conduciveness of an environment towards opportunity exploitation by foreign founders (Shane, 2003; Nyström, 2008). Economic stability is important for exploiting an entrepreneurial opportunity, because the exploitation entails the recombination of resources and of selling these as an output in the future (Shane, 2003). When this future is volatile, the entrepreneur is faced with additional uncertainty, making him less likely to invest in entrepreneurial opportunities, or to locate to an unstable environment (Shane, 2003). In the category of economic freedom, on the other hand, a smaller amount of regulation on business, credit and labour are found to increase entrepreneurship in an institution (Nyström, 2008). Secondly, the availability of capital, e.g. through venture capital (VC) or low interest rates, also encourages new venture formation, as it makes investors more likely to finance entrepreneurs (Shane, 2003). This has also been found to be an important criterion for foreign founders of INVs, since resource mobilization can be challenging, especially due to a foreign founder's lacking social ties in the new environment (Efendic, 2016). Thirdly, higher tax rates reduce opportunity exploitation of entrepreneurial activities and FDI (Djankov, Ganser, McLiesh, Ramalho and Schleifer, 2010), which is especially pertinent for smaller venture capital backed firms (Keuschnigg and Nielsen, 2004). High bureaucracy is also seen to constrain entrepreneurial activity (Singer, Herrington and Menipaz, 2018).

The political environment also influences the opportunity exploitation by foreign founders through the constructs of stability and freedom, rule of law, decentralization of power and entry regulations (Shane, 2003; Efendic, 2016). Political freedom contributes to a free exchange of information (Hayek, 1945), facilitating the access to the information needed for entrepreneurial identification and creation. Property rights and the rule of law are also key requirements for new venture creation and FDI location attractiveness (Shane, 2003; Bailey, 2018). This includes the right to own assets and to benefit from a stable legal framework, in which uncertainty is mitigated and entrepreneurial planning is enabled. This is especially germane when the firm depends on the use of trade secrets, patents and complementary assets, which it uses to demonstrate an ownership advantage in an environment. The importance of property rights and a transparent, impartial and effective rule of law has also been demonstrated to be important for attracting FDI to a location (Globerman and Shapiro, 2003), since this decreases uncertainty and transaction costs for foreign firms. A strong property rights protection is especially highlighted in technologically intensive sectors in Eastern

Europe (Javorcik, 2004) and for INVs (Couerderoy and Murray, 2008). Furthermore, the importance of a transparent rule of law for FDI attractiveness can also be perceived by the negative effect that corruption has on location FDI attractiveness (Globerman and Shapiro, 2003). Nevertheless, institutional distance and accustomedness influences the deterring effect of corruption (Cuervo-Cazurra, 2006) and of the rule of law in general.

Democratic institutions and the decentralization of power are likewise important from the entrepreneurial opportunity exploitation perspective, because they enable the exploitation of different kinds of opportunities which are based on idiosyncratic information gathered in the market system (Shane, 2003). Moreover, they contribute to an internal control and ownership over a business idea, which is important from a motivational standpoint (Beggan, 1992). Democratic institutions are also predicted to attract up to 70 percent more FDI than authoritarian institutions, because they result in lower country risk for foreign firms (Jensen, 2003). This variable could be especially relevant in Estonia, due to the effect that the centralized governmental system during communist rule, has had on the institutional environment in the past (Manolova, Eunni and Gyoshev, 2008). Politically these traces might not be observable anymore. Estonia has in fact managed institutional reforms to allow significant economic growth that rivals Western economies (Sobel, 2008). Nevertheless, the effect over the socio-cultural sphere, e.g. on the normative attitudes towards entrepreneurial activities and the social capital of entrepreneurial skills, might still be observable. And finally, foreign founders are dependent on entry regulations such as access to startup visas, without which they might not be able to enter the foreign location (Efendic, 2016).

In the socio-cultural environment, social desirability of entrepreneurship, available role models and human capital as well as entrepreneurship programmes could increase the conduciveness towards a foreign founder's opportunity exploitation in an environment (Shane, 2003; Ács, Szerb and Llyod, 2017; Singer, Herrington and Menipaz, 2018). These include the culturally cognitive and normative pillars (Scott, 2008) and dictate what kinds of activities are desirable and receive legitimacy in an environment. The social desirability of entrepreneurship is higher when an entrepreneurial career is positively valued and approved in the environment, thus making people more willing to pursue an entrepreneurial career (Linán and Santos, 2007). Secondly, the availability of entrepreneurial role-models supports the transmission of entrepreneurial capabilities and learning through social networks (Shane, 2003). This improves the knowledge of

entrepreneurship available in a social group, which leads to the generation of more entrepreneurial opportunities through knowledge spillovers (Audretsch and Keilbach, 2007; Ács, Brooksbank, Gorman, Pickernell and Terjesen, 2012).

These constructs in Figure 1 by Shane (2003) and additional references (Nyström, 2008; Efendic, 2016; Ács, Szerb and Llyoyd, 2017; Bailey, 2018; Singer, Herrington and Menipaz, 2018) show us that the ideal institutional environment for venture creation by foreign founders is thus economically and politically stable and decentralized, lowly taxed and has funding available. It nonetheless, demonstrates a strong rule of law and property protection, while also being socio-culturally conducive towards entrepreneurial activities (Shane, 2003). All these variables can be perceived to be forms of institutional upgrading that make the business operations more efficient in a foreign location. It still needs to be examined which of these institutional attributes are relevant for foreign founders of INVs, or if an institutional upgrading approach is at all relevant for them. The foreign founders of INVs might be more attracted by specific knowledge sources, rather than the quality of broad macro-economic variables of the institutional environment.

2.2 Entrepreneurship process

This section aims to provide the theoretical bones to the research, into which the location choice of foreign founders is embedded. It aims to pinpoint the location choice's time of occurring and its factors within the entrepreneurship process model. To achieve this, the steps of the entrepreneurship process are explained in the first subsection. This enables the contextualization of the different steps required for an entrepreneurial venture creation. This contributes the necessary background information to understand the importance of the location choice within the entrepreneurship process. In the following subsection, the immigrant-specific concerns for the entrepreneurship process are explained. This provides grounds on which foreign founders of INVs can be distinguished from other immigrant entrepreneurs. And finally, the last subsection discusses the entrepreneurship process for the foreign founder.

2.2.1 Steps of the entrepreneurship process

The basic framework of the entrepreneurship process was created by Shane and Venkataraman (2000) and has since been expanded (Shane, 2003; Baker, Gedajlovic and Lubatkin, 2005; Vinogradov and Elam, 2010). Shane's model (2003) of the entrepreneurship process is used to exemplify the entrepreneurship process and its conditions for entrepreneurs in general (Figure 1).

The steps are existence of opportunity, discovery of opportunity, opportunity exploitation, resource acquisition and execution. Understanding these steps and the respective concerns facilitates the creation of a theoretical framework and in binding the location choice of foreign founders into a theoretical framework for this thesis.

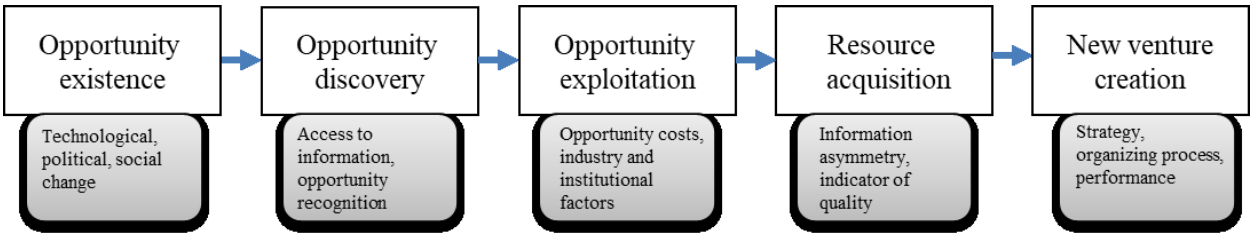

Figure 1. Entrepreneurial process and main concerns (Shane, 2003)

The first step, the existence of opportunities, serves as the pre-requirement for entrepreneurial activity (Shane and Venkataraman, 2000) and has incited two major philosophical discussions. Essentially, their diverging conceptualization relates to the question if the existence of opportunities actually requires the introduction of new information, or just a different access to already existing information (Shane, 2003). The Kirznerian (1973) tradition advocates that the existence of opportunities only requires a differentiated access to the already existing information. This is, because people interpret information differently and so have different beliefs about the efficient use of resources, thus creating shortages and surpluses (Gaglio and Katz, 2001; Shane 2003). By addressing these misalignments, an entrepreneur can recombine resources to make a profit (Shane and Venkataraman, 2000). The Schumpeterian perspective (Schumpeter, Opie and Elliott, 1983) perspective, on the other hand, claims that changes in the environment create new information that can be used by entrepreneurs to recombine resources more efficiently. These changes are of technological, political/regulatory, or of social/demographic nature. Moreover, this perspective vows for the introduction of innovative and disruptive forces into the existing system, while the Kirznerian approach fosters equilibrium (Shane, 2003).

New technology-based firms, such as INVs, can thus be seen to be Schumpetarian agents of innovation (Sexton and Landström, 2000), which take advantage of changing circumstances to introduce disruptive innovations into a system. Even if INVs can potentially introduce changes to the value of resources and thus create an entrepreneurial profit (Shane, 2003), this thesis approaches the existence of opportunities from a Kirznerian view (1973). This is because a Kirznerian view is more aligned with the research philosophy of social constructionism, in which

differences in interpretation result in an imperfect understanding of entrepreneurial opportunities and transaction costs to arise. It recognizes the Schumpeterian role of change (Schumpeter, Opie and Elliott, 1983), but not in the sense that it creates new information, only its different interpretation. The fact that foreign founders move to a foreign location to create their new venture, also supports a Kirznerian approach. The foreign founders have spotted an opportunity abroad for a more effective bundling of resources, or a more rewarding combination of locational advantages with their own existing ownership advantages. This means that they have perceived a misalignment, from which they aim to draw profit. The opportunity of creating a venture in a foreign location is a typical case of a Kirznerian (1973) opportunity, even if the product itself might be innovative and disruptive.

The second step concerns the discovery of entrepreneurial opportunities. The reasoning is that, when opportunities exist in the world, then their discovery depends on the individual's access to information and his ability to recognize an opportunity (Shane, 2003). The access to information is influenced by one's life experiences, social networks and search processes, which all influence if one will discover the information that could lead to an entrepreneurial opportunity. The opportunity recognition, on the other hand, relates to the individual's capability to recognize an opportunity from the information available. An individual's absorptive capacity, intelligence and cognitive properties are all important determinants for the opportunity recognition (Shane, 2003), which has also been called entrepreneurial alertness (Gaglio and Katz, 2001).The conditions to discover an opportunity, as described above, are all individual-specific, not clarifying the role of the environment. Neither does it explain how some people from certain backgrounds could be better in discovering opportunities than others. The entrepreneurship process framework has therefore been criticised of being under-socialised (Baker, Gedajlovic and Lubatkin, 2005) since it does not demonstrate how entrepreneurial processes evolve differently across countries.

The third step focuses on the exploitation of opportunities. In general, the decision to exploit opportunities is shaped by individual and demographic circumstances. For the individual the decision to exploit is affected by one's psychological traits, e.g. motivation, self-evaluation, cognitive properties. However, it is also affected by one's personal background, such as education, age, experience and social ties (Shane, 2003). But disregarding the individual propensity to exploit an opportunity, it is also a question of opportunity cost for the entrepreneur (Shane, 2003). People

are more likely to exploit an opportunity when the gap between expected profit and utility from an opportunity and the alternative use of one's time is large (Shane, 2003). This kind of reasoning can also be unbecoming, since according to it, unemployed people would have the smallest opportunity costs and therefore the greatest benefit of exploiting any kind of opportunity. However, the unemployed do not necessarily have the greatest entrepreneurial talent (Shane, 2003). Thus, it incentivizes people with low opportunity costs to pursuit mediocre opportunities, which often fail and prove to be unsuccessful (Shane, 2009). Nonetheless, the people with high opportunity costs must then also have greater entrepreneurial talent and a more profitable opportunity to be motivated to pursue it (Shane, 2003).

Since individuals do not operate in a vacuum, the industry and their institutional environment provide boundary conditions for an individual who is pursuing an entrepreneurial opportunity. Indeed, some industries are found to be more supportive of new venture growth than others (Cooper, Gimeno-Gascon and Woo, 1994). In brief, firm formation is influenced by the industry conditions of knowledge, demand, industry life cycle, appropriability and industry structure. So, for example, industries high in research and development (R&D), that are still relatively young, but show growing and segmented demand, foster the creation of firms (Shane, 2003). Institutional forces, on another hand, influence the context of opportunity exploitation and thus impact the feasibility and people's willingness to engage in entrepreneurial activities (Shane, 2003). In essence, a society's institutional environment legitimizes entrepreneurship and creates incentives for its people, which eventually influence the form that entrepreneurial activities take, i.e. productive or unproductive entrepreneurship (Baumol, 1996). The incentives specify the payoffs for entrepreneurial activities, e.g. expected gain from productive activities, such as innovation, or unproductive activities, like organized crime, and thus urge people into their specified direction (Baumol, 1996). Even if it might seem too simplistic to just improve a society's relative rewards and incentive structure to improve its entrepreneurial activity, the industry and institutional environment play an important role in enabling the structural conditions for entrepreneurship (Stenholm, Ács and Wuebker, 2013).

The fourth step then portrays an entrepreneur's challenge and means of acquiring resources, such as financial resources, through which they can realize an entrepreneurial opportunity (Shane, 2003). Financial resources can be an entrepreneur's own savings, or then be acquired externally

(e.g. personal contacts, VCs, banks, government, business angels). For a typical entrepreneur the challenges in resource acquisition are uncertainty and information asymmetry. Uncertainty happens, because an entrepreneur needs to obtain resources before being able to evaluate venture success. This can make the resource acquisition difficult, due to which some indicator of quality is often required (Shane, 2003). Personal networks and accelerators can serve as a form of quality-indicators, because they give some additional credibility about the venture quality by taking on an intermediary role (Efendic, 2016). The second challenge is that of information asymmetry between entrepreneurs and potential capital providers, which emerges due to different interpretations of information among people (Kirzner, 1973). This can lead to the situation that not the best opportunities get funding. For example when mediocre but more popular ideas get priority for funding so as to thwart competitors in a market, making it more difficult to convince investors of the value of more innovative and risky ideas. Nevertheless, an entrepreneur's social ties, effective communication strategies and indicators of quality can all help in overcoming these challenges of resource acquisition (Shane, 2003).

The fifth step of the entrepreneurship process then encompasses the execution phase and the start of the new venture. It deals with creating an entrepreneurial strategy, organizing processes and handling performance issues of the new firm. These mostly reflect the necessary steps to ensure venture viability and the ability to draw legitimacy as well as profit in the new competitive environment (Shane, 2003).

While the entrepreneurship process model (Figure 1) displays the steps of the typical venture creation process, it does not include any information about where the entrepreneur would start the new venture. It completely disregards the location choice and neglects to consider how certain entrepreneurs might be able to recombine the entrepreneurial opportunities and their different skillsets to make an additional profit. In the next subsection the process for immigrant entrepreneurs is outlined, in order to figure out if this process would be applicable to foreign founders of INVs.

2.2.2 Entrepreneurship process for immigrant entrepreneurs

Entrepreneurship among immigrants is often approached from the motivational perspective and consequently divided into necessity-based entrepreneurship and opportunity-based entrepreneurship (Chrysostome and Lin, 2010). These both have as their pre-requirement that the

immigrant is already located in the foreign environment and due to certain circumstances is engaging in an entrepreneurial venture creation. Certain immigrant-specific factors that influence an immigrant's exploitation of entrepreneurship are, e.g. advantages and resources through ethnic networks, liabilities due to cultural and language differences and ties to both the home and host country through friends and family (Kloosterman, van der Leun and Rath 1999; Kloosterman 2010; Vinogradov and Elam, 2010). Moreover, an immigrant entrepreneur's pre-migratory experiences and the characteristics of accessible resource-sets are also significant influencers (Vinogradov and Elam, 2010). Thus, these circumstances present special boundary conditions that affect the entrepreneurship process amongst immigrants, which Vinogradov and Elam (2010) have adjusted from Shane's model (2003). These circumstances of the immigrant-specific entrepreneurship process model (Figure 2) are illustrated so that grounds for comparison between foreign founders and immigrant entrepreneurs are established.

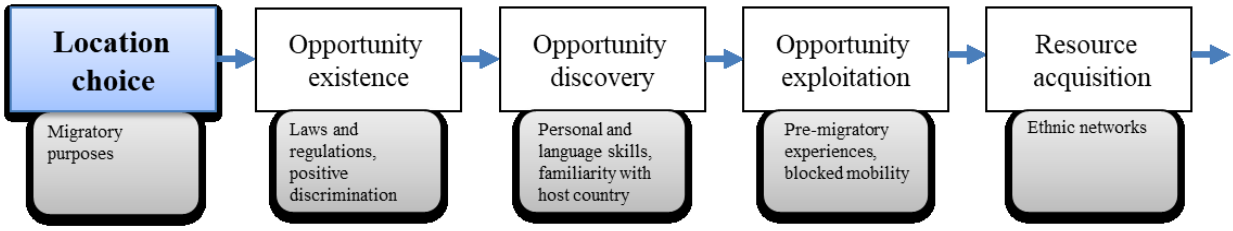

Figure 2. Entrepreneurship process and main concerns for immigrants, adapted from Vinogradov and Elam (2010)

The existence of opportunities for immigrants is defined by macro-level structures and trends. These are, e.g. the laws and regulations that may block immigrants from accessing certain opportunities (Kloosterman, 2010), or then alternatively the means of positive discrimination, which seek to support the business activities of minorities and thus create opportunities which are inaccessible to mainstream entrepreneurs (Vinogradov and Elam, 2010). Since these are macro-level structures, the immigrant entrepreneur cannot easily influence this existence of suitable opportunities, except by assuring a location fit and opportunity accessibility when migrating (Vinogradov and Elam, 2010). This demonstrates that the location choice is in fact important for immigrant entrepreneurs, but to ensure a person-location fit for migration purposes, rather than a business-location fit. The location choice thus happens before the entrepreneurship process and the location chosen provides the contextual environment for the venture creation.

Further, the discovery of opportunities is mostly characterised by the disadvantages because of the liability of foreignness (Zaheer, 1995) and the advantages due to a different background and

knowledge. While language barriers and a lack of familiarity with cultural and formal institutions in the host country lead to disadvantages in discovering opportunities, especially when these are in the mainstream sector, an immigrant's different knowledge pool and connections to co-ethnics may help them to identify niches that are hidden from mainstream markets (Vinogradov and Elam, 2010). For instance, the opportunities in international trade, where social ties to both the home and host market can be exploited. Nevertheless, these circumstances push immigrants to discover those opportunities that are legitimised by the institutional environment, which often result in specific types of opportunity structures, e.g. demand for ethnic products (Kloosterman, van der Leun and Rath, 1999).

Thirdly, the decision to exploit opportunities is then influenced by individual psychological factors as well as socio-cultural factors (Shane, 2003). For an immigrant entrepreneur, pre-migratory experiences play a significant role, e.g. if cultural values support entrepreneurial activities. Moreover externally, the pressure from co-ethnics and from external hostility as well as blocked mobility, may push the immigrant to seek self-employment (Vinogradov and Elam, 2010).

Finally, the resource acquisition of immigrant entrepreneurs is strongly linked to their ethnic networks, since these can provide critical access to resources and credit (Vinogradov and Elam, 2010). This is especially important, since immigrant entrepreneurs might have difficulties in receiving bank loans or accessing other resources (Bruder, Neuberger and Räthke-Döppner, 2011). In the new venture creation phase no idiosyncratic challenges are highlighted, due to which this phase is not included in Figure 2 (Vinogradov and Elam, 2010).

2.2.3 Entrepreneurship process for foreign founders

While aspects of both the general and the immigrant specific entrepreneurship process models apply to the foreign founder, features unique to the foreign founder exist. The most apparent feature is the role that location choice has. While in the other two models the location choice is not a considerable concern for the entrepreneurship process, a foreign founder's location choice carries great strategic importance. This subsection contrasts the differences between immigrant entrepreneurs and foreign founders in respect to the entrepreneurship process and location choice. The greatest relevant differences amongst these are in the nature and timing of the location choice, the role of access to visa and resources and the influence of the liability of foreignness (Zaheer, 1995).

The first difference is the nature and timing of making a location choice between a foreign founder and the immigrant entrepreneur. According to Efendic (2016), a foreign founder first discovers a business opportunity, after which he decides to migrate to pursue the opportunity in a favourable business environment. Therefore, the foreign founder is dealing with two separate opportunities, i.e. the opportunity of a business idea and the opportunity of a potentially more suitable location for the business idea, which he aims to match in order to receive a greater benefit. The foreign founder could then, after the business opportunity discovery phase in his home location, deal with the investigation of how well potential locations could be matched to the new business idea. Thus, the location choice and its factors should be incorporated in the entrepreneurship process for foreign founders. In opposition, the immigrant entrepreneur makes the location choice for migratory purposes before getting engaged with the venture creation process. Only after he is already in the new location, he discovers a potential niche for business and thus involves himself with the entrepreneurship process. This matching of business idea with a suitable location does not happen for immigrant entrepreneurs; rather immigrant entrepreneurs match the location to their personal migration needs.

The second difference is that the accessibility to a visa and resources are important influencers for the foreign founder's location choice, which happens in the pre-migratory phase after the opportunity discovery (Efendic, 2016). Comparable concerns exist for the immigrant entrepreneur, but at different stages of the entrepreneurship process and with little influence over the location choice for the immigrant entrepreneur's business. For the immigrant entrepreneur, the accessibility to a visa is more important for residential purposes and not for business purposes. Moreover, the potential scouting for resources happens when the immigrant entrepreneur is already settled in the location and has established networks. Resource acquisition and visa accessibility thus do not influence the immigrant entrepreneur's location choice, whilst they have a significant impact on the location choice of foreign founders. This signifies that the foreign founder might aim to look ahead strategically when making a location choice and combine different steps of the entrepreneurship process. For instance, making a choice of a location, where he is sure to be able to access the necessary resources and knowledge for the startup creation and development.

The third difference between immigrant entrepreneurs and foreign founders is when these entrepreneurs experience the liability of foreignness (Zaheer, 1995) and how they overcome it.

When entering the foreign location, foreign founders are often unfamiliar with the local culture, institutional environment and market, due to which they suffer from the liability of foreignness and a lack of legitimacy, which makes it difficult for them to acquire resources from investors and access skilled labour (Efendic, 2016). This demonstrates that foreign founders experience the liability of foreignness mostly in the opportunity exploitation and resource acquisition phases, while immigrant entrepreneurs do so in the opportunity discovery phase. According to Vinogradov and Elam (2010) immigrant entrepreneurs need to deal with the liability of foreignness in order to discover a business opportunity, but later in the entrepreneurship process, they rely on their ethnic networks to overcome limitations in resource acquisition and opportunity exploitation. However, these ethnic social ties do not yet exist for the foreign founder, who just recently migrated to a new location. Foreign founders rather use prior international experience to overcome the liability of foreignness and enable rapid internationalization (Freeman, Hutchings and Chetty, 2012). Nevertheless, potential social ties, which can be accessed through, e.g. accelerators or incubators, are an important determinant of a foreign founder's exploitation of a location choice opportunity, since they help in accumulating resources and overcoming the liability of foreignness (Efendic, 2016).

In conclusion, the opportunity discovery phase of foreign founders is mostly concerned with the ability to match the location opportunity with that of the entrepreneurial idea, while also considering visa and financial aspects. The decision to exploit the opportunity then depends on the location's potential to provide access to social ties and resources. This phase goes hand in hand with the resource acquisition phase, where the aim is to mitigate the liability of foreignness and resource constraints through social ties, which can also be accelerator-facilitated. Interestingly, in the initial location choice consideration, the access to finances and resources in the location is only relevant to ensure firm survival and moderate sums are sufficient to meet the foreign founder's requirements. However, in determining if the new venture will remain afterwards in the chosen location, the access to new resources plays a considerable role, since the lack of available resources would be an impediment for the expansion of the business and make the foreign founder more inclined to locate elsewhere in search for new supplies of resources (Efendic, 2016).

2.3 Theoretical Framework

This section on the theoretical framework displays and explains the theoretical framework that is used in this thesis (Figure 3). In this theoretical framework, the foreign founder's location choice is added into the entrepreneurship process. First, it discussed why and where the location choice is embedded into the framework. Relevant existing literature is used to back up this addition. Afterwards the location choice itself is explored. For this, theoretical inputs for resource development, the assessment of transaction costs and the institutional environment are explained.

The typical entrepreneurship process does not include a location choice (Shane, 2003). The foreign founder however makes this kind of choice, due to which it needs to be embedded in the entrepreneurship model (Shane, 2003; Vinogradov and Elam, 2010). The location choice is embedded in the process as the step after opportunity discovery, where the founder is considering a suitable location for the new venture. This is as according to Efendic (2016), a foreign founder first discovers a business opportunity, after which he decides to migrate to pursue the opportunity in a favourable business environment. The location choice is thus the matching of a foreign founder's business idea with a potentially more suitable location.

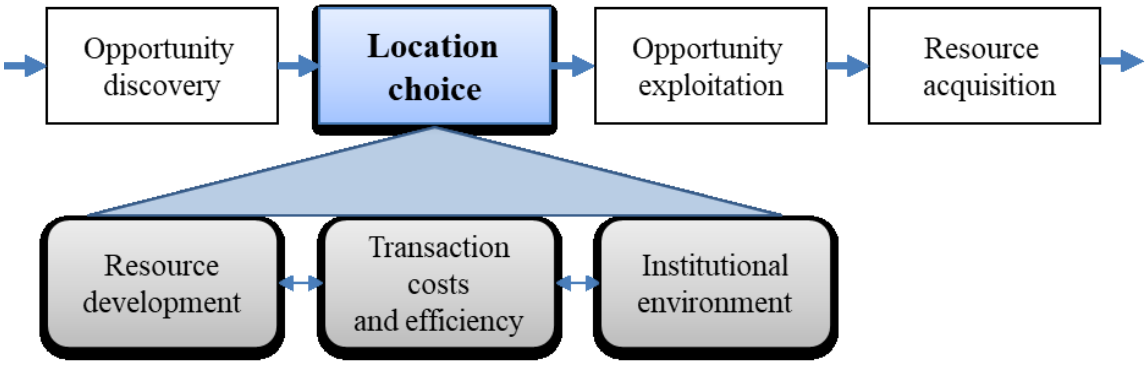

Figure 3. Foreign founder's location choice within the entrepreneurship process. Created from Shane (2003), Vinogradov and Elam (2010), Efendic (2016), Dunning (1980; 2000), Zhao, Luo and Suh (2004), Kostova (1999)

This framework focuses on the foreign founder's experience after the opportunity discovery phase, when founders have made the conscious decision to search for other locations than their home location to establish their new venture. According to Efendic (2016) visa and resource accessibility are important concerns in the pre-relocation phase that differentiate foreign founders from other immigrant entrepreneurs. In addition, in the opportunity exploitation and resource acquisition phases foreign founders also experience the liability of foreignness (Zaheer, 1995), due to which

they need to make additional efforts to become familiar with the local culture and achieve institutional legitimacy (Scott, 2001). The step before the opportunity discovery (i.e. opportunity existence) and the step after resource acquisition (i.e. new venture creation) are left out in this theoretical framework as they were not noticeably impacted by location choice considerations in this study. For these foreign founders the new venture creation phase is more gradual and the venture creation already commences with the founding and registering of a company during the opportunity exploitation phase, indeed already when the founder has received the startup visa.

The location choice is then the foreign founder's investigation of how well the potential new location matches the business idea. This investigation comprises three main aspects, which are adapted from the OLI paradigm of Dunning (1980). The potential for resource development, the assessment of transaction costs as well as the perceived conduciveness of an institutional environment. The guiding questions can be summarized as: Where can the INV develop competitive resource-bundles? How is it able to carry the transaction costs of locating to a new environment? And how does the institutional environment interact with the firm's ability to bundle resources and overcome transaction costs?

When it comes to resource development, INVs are said to bundle their resources efficiently from different markets giving them their competitive advantage (Oviatt and McDougall, 1994). These resources are mostly knowledge-based resources, i.e. capabilities, knowledge and innovativeness (Knight and Cavusgil, 2004; Weerawardena, et al., 2007). These knowledge-based resources can be bundled or developed in such a way that they provide the INV with a competitive advantage, after which they can be described as ownership advantages (Dunning, 2000). These are also the location-bound *created* advantages, in which a firm can bundle potential locational advantages to complement its own core competencies (Dunning, 2000).

According to Knight and Cavusgil (2004) INVs are able to develop proficient organizational capabilities to serve as knowledge-based ownership advantages. These arise due to their dynamic learning capabilities (Weerawardena, et al., 2007) and their innovative as well as technologically superior skills (Cavusgil and Knight, 2015). These enable INVs to internationalize more rapidly and display superior performance, even under conditions of resource parsimony (Cavusgil and Knight, 2015). This hints that INVs have unique organizational capabilities, or are able to create unique resource-bundles, that would permit them to be competitive in the new environment.

The locating to a foreign environment is viewed as a bundling opportunity, which results in specific transaction costs and efficiencies to take place. The main determinants of these costs are the consideration of the additional market, organising and bundling costs, especially when comparing these to the costs of the home location (Williamson, 1979; Hennart, 1991). For the foreign founders, as small-scale enterprises, these are additional costs such as living costs, taxes, hiring personnel and costs of setting up the business in a foreign location. Nevertheless, an important part of transaction costs, is also the assessment of transaction cost efficiency. This comprises asset specificity and uncertainty (Zhao, Luo and Suh, 2004). Asset specificity refers to the idea that resources of the transaction (i.e. locating and bundling resources to a particular environment) are optimally bundled, making an alternative use of the resources less valuable (Williamson, 1996). This also provides explanation why under specific circumstances individuals are willing to pay higher transaction costs in order to get access to specific advantages, e.g. market, resource, efficiency, strategic asset (Dunning, 1998). Moreover, higher amounts of uncertainty make the transaction less efficient, by impeding strategic planning (Zaheer, 1995; Zhao, Luo and Suh, 2004). A key consideration for assessing potential locations is that, according to Dunning (1980), the ownership advantages that a firm has should outweigh the transaction costs of operating in the foreign location (Dunning, 1980, Zaheer, 1995). This means that a firm's own awareness of its ability to create ownership advantages in the foreign location provides it with knowledge of how well it can overcome transaction costs, or where it can create efficiencies in the new environment.

The locational advantages are regarded from the perspective of institutions, which provide the boundary conditions in which the INV operates (Shane, 2003). The institutional environment also shapes the locational advantages that the INV can profit from and bundle with its own resources. Here, it is necessary to differentiate between the *natural* location-specific advantages, that are principally available for all in the location and the location-specific *created* advantages, which the INV is able to develop in the new location (Dunning, 2000).

The institutional environment can also act to alleviate or increase the transaction costs of locating to the new environment and of establishing and running operations there. A main consideration is institutional distance (Kostova, 1999), which increases uncertainty and thereby also the market-related and organizational transaction costs (Hennart, 1991), that the INV needs to incur due to lacking market knowledge and unfamiliar customs in the new environment. The greater the

distance between the home and target locations, the greater the adjustment costs to the new location (Johnson and Vahlne, 1977; Kostova and Zaheer, 1999). Moreover, the economic, political and socio-cultural context can influence the exploitation of an entrepreneurial opportunity (Shane, 2003). In this sense, an institutional conduciveness towards the creation of new ventures (Table 1, p.24) can decrease some of the hurdles and provide supportive conditions for exploiting an entrepreneurial opportunity. Institutional conduciveness therefore decreases some of the transaction costs of establishing and running a business in the foreign location.

When the foreign founder seeks out a favourable environment to exploit an entrepreneurial opportunity, he makes a location choice. He assesses different institutional environments and their locational advantages in the hopes of finding an environment in which he is able to develop sufficient ownership advantages. This could be an environment of great transaction cost efficiency, in which the founder is able to profit from high asset specificity and low uncertainty about this specific location-INV match. In addition, he hopes for an environment in which the transaction costs for establishing and running operations are low. This could be either due to a low institutional distance between the home and target locations, or a high institutional conduciveness for the activities of the entrepreneurship process that the founder aims to accomplish. The foreign founder may also be willing to incur higher transaction costs, if there is something specific (i.e. market, resource, efficiency, strategic asset) in the environment that he seeks.

3. METHODOLOGY

This chapter elaborates on methodological concerns in the thesis. Research methodology is imperative to bring alignment to a study and to make sure that the methods, research focus and analysis all support each other. Moreover, a suitable methodological approach allows a critical and reflexive conduct towards the research topic (Eriksson and Kovalainen, 2008). This chapter starts with the philosophy and design of the study, which provides the foundation to the research. The sample and data collection recounts the data by which findings for analysis can be derived. The data analysis then provides information on how this data is analysed and interpreted. The methodological chapter closes by discussing concerns regarding quality, ethics and limitations.

3.1 Research philosophy and design

This master's thesis applies qualitative research methods. Qualitative research promotes understanding when complex interrelationships exist among subject matters (Stake, 1995). A qualitative research approach is therefore especially useful to understand the location choice of foreign founders of INVs, as their location choice has not yet been researched and the locational advantages that these founders seek still have to be formulated. Theoretical guidance can be derived from MNE location theory and from observations for individual entrepreneurs, but because a foreign founder's overall business strategy differs from that of MNEs or even local startups, these theories might not be relevant for foreign founders. Thus, an exploratory qualitative research is executed in which it is necessary to navigate in a complex environment and test out which theories and locational advantages become relevant for foreign founders.

In this thesis, my research philosophy is interpretivism or social constructionism (Berger and Luckmann, 1991), which is interested in the emergence of subjective and shared meanings in research (Eriksson and Kovalainen, 2008). This research philosophy is the most fitting approach for this research, as a research interest is to see how the group of foreign founders that come to Estonia perceive and interpret the entrepreneurial ecosystem and the transaction costs of locating to Estonia. An assumption is that reality is socially constructed and consideration is given to the full complexity of human sense-making in which many possible interpretations can exist (Eriksson and Kovalainen, 2008). In this respect, the theoretical literature review is to understand the theoretical themes that typically influence the location choice factors of MNEs and entrepreneurs. During the interviews, the relevance of these themes is then investigated and focus is on what is

most significant for each founder. This is also a reason why knowledge spillover theory (Alcácer and Chung, 2007) is omitted from the research, as it did not seem relevant for this group of foreign founders. At a later stage, theoretical themes are narrowed down according to the emergence of a shared meaning among these founders. Thus, this research philosophy permits the in-depth qualitative investigation into the individual and shared interpretations of the locational advantages of Estonia and how founders perceive this to affect their entrepreneurship process and resource-bundling concerns.

The research design is qualitative and oriented towards the exploration of theoretical themes, with the help of in-depth interviews with foreign founders. This research uses case study methods which provide valuable inputs when trying to understand contemporary phenomenon in which the boundaries between context and phenomenon are still blurred (Yin, 2009). What is especially relevant from case study design, is the understanding and use of a bounded and relevant context (Creswell, 1998). The bounded context of Startup Estonia, within the entrepreneurial ecosystem of Estonia, binds these foreign founders together so that a shared interpretation of findings is made possible. This means that to shape this context, information about the Estonian startup visa programme as well as the entrepreneurship environment in Estonia is needed. Diverging from traditional case study design, the unit of analysis is not on the level of the programme of Startup Estonia and neither on the level of the individual founders (Eriksson and Kovalainen, 2008). The unit of analysis is rather on the group of the interviewed founders, in order to be able to discern how the findings of these founders together permit a shared meaning to emerge. This is permitted in the philosophical approach of social constructionism in which many possible interpretations of knowledge can exist among people. This then leads to segmentations and specialisations of this knowledge in a certain group of people (Berger and Luckmann, 1991). Thus, this design permits the taking of the individual interpretations of founders and to collectively shape a shared meaning out of these.

Qualitative research with a social constructionistic research philosophy is particularly well-suited to approach the research question and objectives of this thesis. The research question: "*What are the factors of the foreign founder's location choice and how do these impact the entrepreneurship process?",* combines both a "what" and "how" question. The "what" question aims to propose location choice factors which are then used to understand their impacts on the foreign founder's

entrepreneurship process. The "what" question thus proposes findings for further inquiry in the study (Yin, 2009). The "how" question on the other hand, is to get more in-depth understanding of the interrelationships in the data and to be able to observe if interesting propositions emerge by taking these founders as a group. All three research objectives in this thesis require the in-depth individual, and group-level, investigation into the foreign founder's consideration of location choice factors, impacts on the entrepreneurship process and the perception of transaction costs of locating to a foreign location. Due to these circumstances, the selection of qualitative research with a social constructionist research philosophy and interview data collection methods are justified.

3.2 Sample and data collection

Startup Estonia is chosen as a research context, because its foreign founders need innovative business models with scalable global growth potential to get a visa in Estonia. This setting permits access to foreign founders of high potential INVs, while also providing a relatively homogeneous research sample. The context permits the data abstraction, because founders are in a comparable state as the startup visa programme was initiated in 2017 (Startup Estonia, 2017). This means that founders are all relatively new to Estonia and without social capital advantages, such as prior networks, that could impact their location choice (Dahl and Sorenson, 2012). Moreover, Startup Estonia is also chosen above other startup programmes in the world, due to the physical closeness between Estonia and Finland. This makes it easier for a student of the Aalto University to get access to the Startup Estonia program, as the university is well known in an Estonian context. Moreover, foreign founders are also interested in the entrepreneurship environment in Finland, making it easier to get interviews with founders. Estonia is also very interesting as a research context, as Estonia's digital and e-governance infrastructure is very advanced, differentiating it from other entrepreneurial ecosystems in the world (Tammpuu and Masso, 2018).

The research data was collected by hand of eight semi-structured interviews with foreign founders that were held in May 2018 on Skype. The participants were chosen by availability and using snowball sampling techniques (Patton, 1990), in which access to interviewees is secured through further introductions by interviewees. In addition, access to foreign founders' Slack channel was granted by the Startup Estonia programme manager, through which founders were directly contacted. Attention was directed towards obtaining participants from different institutional backgrounds, allowing for cross-institutional differences and bringing more nuances to see how

different home environments could possibly impact the founders' perception on Estonia as a location choice.

To obtain a good understanding of the contextual circumstances in Estonia and the startup visa programme, an interview was conducted with Mr. Rivo Riistop, who is the project manager of Startup Estonia. He provided background information about the programme and its objectives and aims. Second, textual information about the startup programme was collected on the Startup Estonia webpage and the group's Slack channel. Thirdly, information about the entrepreneurial ecosystem was assembled from entrepreneurship reports such as from Global Entrepreneurship Monitor (Singer, Herrington and Menipaz, 2018), Global Entrepreneurship Development Institute (Ács, Szerb and Lloyd, 2017) and the Doing Business report of the World Bank Group (2018). These reports compare Estonia's entrepreneurial ecosystem to that of other countries in the world. They provide a very practical perspective of the variables that could impact the attractiveness of a location for an entrepreneur and which complements the more theoretical perspective of institutional conduciveness in the literature review.

The interviews lasted from 45 to 60 minutes. The research focus was on the foreign founder's experience after the conscious decision was made to search abroad for a location to establish a new venture. One founder was interviewed before physically locating to Estonia and the remaining seven were already in Estonia. The participant who had not yet located was still contemplating the location choice, giving insights about what makes Estonia attractive when only receiving secondary information on the programme, e.g. from the Internet, friends and colleagues. Nevertheless, he already had registered his startup in Estonia with the e-residency. The participants already in Estonia were looking at their location choice in retrospective and were comparing and evaluating their location choice against reality. For example, if a participant shows remorse, because of lacking access to knowledgeable people or networks in Estonia, then that is influencing how the initial location choice is reviewed.

During the research it was noticed, that those participants who had already located to Estonia seemed to be giving more insightful answers to their location choice than the one that had yet to locate to Estonia. This can be understood by the reflections and rationalizations that founders make on a location after the actual relocation, when founders have more information available in Estonia than what they had access to before. One additional interview was also done with a participant

who was still contemplating to apply to the Estonian startup visa programme. Here it was also noticed that the insightfulness of location choice answers, after locating to Estonia, serves the research objectives better than asking founders that have yet to make their location choice. On another note, a focus of the research is the perception of Estonia's locational advantages on the founder's entrepreneurship process and experienced transaction costs, so research participants need to be in a comparable state. For this, it is also important to be aware of the different stages that foreign founders are in their startup development (i.e. here product development), as these influence the stage in which they are in their entrepreneurship process.

The interview guide with 34 major questions, some of which also have sub-questions (Appendix 1), is based on the review of the literature, with a focus on resource development, transaction costs and institutions, which were determined as main factors of location choice for this study. The interview content is broad, whereby the focus of the interview was determined in each interview. Nevertheless, each location choice factor (resource development, institutional conduciveness, transaction costs, transaction cost efficiency) was always discussed. In this way, it is possible to figure out how each of these topics is important for every foreign founder's location choice, which is also congruent with constructionist research philosophy (Berger and Luckmann, 1991). Interviews followed a semi-structured logic, to allow flexibility and interesting insights to emerge from the interviews. Afterwards, the interviews were transcribed word-for-word to allow a systematic data analysis (Eriksson and Kovalainen, 2008).

3.3 Data analysis

The interview data was coded in a structured manner according to the literature review focusing on the factors of resource development, institutional conduciveness, transaction costs and transaction cost efficiency. The research is thus a thematic analysis in which codes were first collected in the qualitative research tool Atlas, after which they were transferred into Excel for analysis. This section explains how the data was coded, organized, analysed and then lastly interpreted, which can also be seen in Figure 4 below.

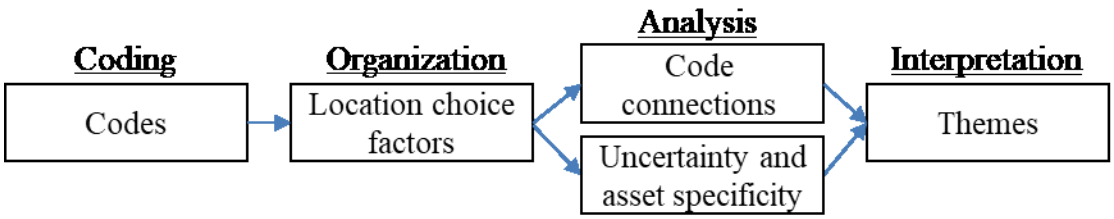

Figure 4. Approach to the data analysis

The interview data was coded using different approaches to find an approach that delivers an insightful understanding of the data. First, the interviews were coded on a micro-level, in which all inferences to theoretical concepts are coded in the interviews. For instance, all international experiences were coded as these theoretically help the entry to a new location (Freeman, Hutchings and Chetty, 2012). However, this created too many codes and a lack of oversight to understand the significance of codes and the relationships between them. Next, the interviews were coded on a macro-level, using only the theoretical framework and its concepts. This produces a good general understanding of the data, but still lacks the analytical depth, especially when it comes to understanding the interlinkages between codes. In the third coding round, the codes emerged from the interviews, by trying to understand which codes are really important for the individual founder. For instance, the founders do not care about their past international experience and therefore the code of "relevant international experience" was left out. On the other hand, they do care about the digital ecosystem in Estonia, even though this did not emerge in the theoretical literature review.

The next step was to organize these codes into the factors of resource development, institutional conduciveness, transaction costs and transaction cost efficiency, which reflect the theoretical framework. For instance, within the factor of resource development, codes are, e.g. finding employees, developing product and service, hiring employees, getting investment, clusters, supply chain building, networking, learning and resource development strategy. These codes emerged from the interviews but are regarded through theoretical lenses, reflecting an abductive research process (Dubois and Gadde, 2002). This process was allowing the back and forth moving between theory and data to get a better understanding of the interaction. This approach also allowed for new codes to emerge, which were then also included, even if they did not appear in the literature review, e.g. the speed of setting up and doing business using the digital ecosystem. It also helps to

see the big picture and work on the group level sense-making of the interviews (Berger and Luckmann, 1991).

Afterwards, the data analysis followed two separate paths, which were then combined in the chapter of findings by organizing the findings into themes to be presented. The first path follows the analysis of connections among codes between the factor of resources, transaction costs, institutional conduciveness and transaction cost efficiency. These connections are created by colour-coding codes if they combine aspects of the factors, e.g. connection between tax (transaction cost) and digital infrastructure (institutional conduciveness). These connections rarely appear in the literature review, as opposed to the individual codes of the factors. The analysis focused specifically on the connections among codes as this results in transaction costs and efficiencies to occur and interesting insights to emerge. Thus, the findings on connections delivered inductively themes into which the findings were organised (Table 5, p.59). The second path of analysis narrowed down on uncertainty and asset specificity, the determinants of transaction costs (Zhao, Luo and Suh, 2004). These bring an in-depth understanding of how founders perceive Estonia to create additional value to them and in which aspects they feel uncertainty or high transaction costs of locating to Estonia.

To make sense and interpret the code connections and the codes on asset specificity and uncertainty, these have been organized into themes, first separately on these two analysis paths and later together. By connecting what different founders have said about a certain topic, a shared interpreted finding emerges. This transition can be observed in the Table 2 below. In the first column of this table, the colours yellow (institutional conduciveness) and green (transaction costs) are seen. The colour shows the factors into which the code has been first included. The first column also shows the connection between codes that has been established in the analysis, e.g. between outsourcing and needing to find personnel. In the second and third column, the interviewees and their specific quotes are seen. Afterwards a new categorization is given, which connects the finding to the literature and identifies how the codes are connected to each other. And lastly, findings and comments are formulated. Within this outcome, common motifs are established which are then presented in the findings chapter of this thesis. This interpretation process is performed multiple times and on both analysis paths separately, as well as together, so that different connections and codes are brought together and interpreted into themes.

Table 2. Exemplary data interpretation on the code "outsourcing"

Code connection	Code source	Content of code	Theoretical connection	Outcome, common motif and comments
C - outsourcing vs R - finding personnel	Vesper, Anapa	Outsourcing tasks so that wouldn't need to hire personnel (accounting, HR - through jobbatical)	Outsourcing and costs	Outsourcing seems to tackle areas: language (institutional distance), administration (speed/ease), no need for hiring personnel (accounting, HR). *Comment:* Outsourcing as a way to lower transaction costs?
C - outsourcing vs IC - ease, speed, institutional distance	Martin, Darius	Using outsourcing to deal with administrative tasks and regulatory differences	Outsourcing and costs	
Insitutional distance vs R-outsourcing	Anapa	Language is sometimes barrier, but can just get personnel in Estonia	Outsourcing and liability of foreigness	

3.4 Quality, ethics and limitations to the thesis

Ethics are very important in qualitative business research to upkeep the integrity within the research community as well as to make sure that the research and findings are trustworthy (Eriksson and Kovalainen, 2008). Therefore, issues such as the quality of findings, ethical concerns and limitations are discussed in this section.

An important consideration in qualitative research is the quality of findings. Qualitative research relies heavily on the researcher's interpretation, which is especially prevailing in the data analysis. This qualitative constraint is displayed in what and how this data is focused on and interpreted into findings. In the data analysis approach (Figure 4, p.45) different triangulation techniques were implemented to ensure data quality by attempting to improve the understanding of the phenomenon through multiple approaches (Denzin, 2012). In this thesis methodological and data triangulation approaches are used to observe how findings change depending on the methods and by using different data sources (Simons, 2009). The descriptions below show how methodological triangulation was performed in the analysis of data, while data triangulation was used for the interpretation of data. Methodological triangulation in the data analysis was observed by following two separate paths of analysis, i.e. code connections and uncertainty/asset specificity in order to see if these two paths of analysis would bring forth supportive or rival explanations (Miles, Huberman and Saldana, 2014) of the findings. Findings were supportive of each other and each focus highlighted different interesting nuances, which were then combined to interpret the data.

When it comes to the interpretation of findings, data triangulation is performed. Besides relying on the data from the interviews, information about the founders' INVs is searched for on their company webpages and on LinkedIn. Publicly available information and comments in the interviews were then used to create timelines for each founder, in which the time of registering the

startup, the relocation to Estonia and the time of the interview are observable. These can be seen in Figure 5 below. This timeline helps to triangulate public and interview information. It also helps to understand the entrepreneurship process of each founder better.

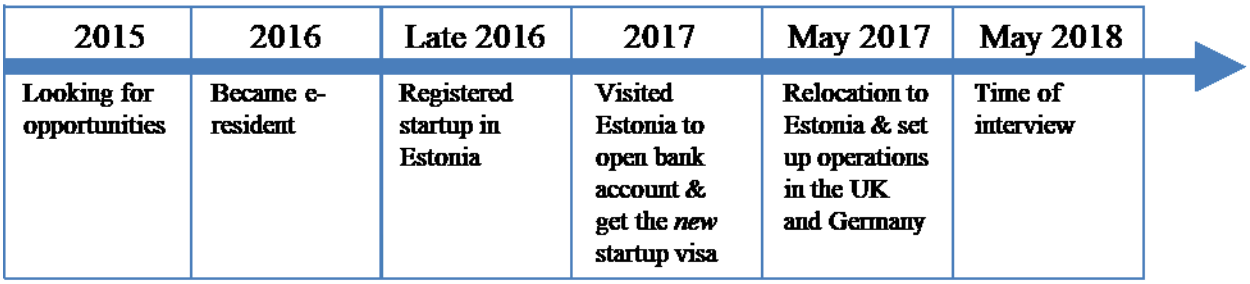

Figure 5. Tom's timeline for his startup

In addition, data triangulation is performed by collecting information on the entrepreneurship ecosystem in Estonia from entrepreneurship reports (see section 4.3), which help to assess the research findings from the interviews. For instance, founders found it challenging to get funding in Estonia, which was also corroborated in Figure 7 of the Global Entrepreneurship Development Institute (Ács, Szerb and Lloyd, 2017, p.53) and Figure 8 of the World Bank Group (2018, p.54).

When it comes to ethical concerns of the thesis full discretion is used to respect the research participants. Informed consent, anonymity and confidentiality were given so as to acquire the relevant data without misusing the participants trust (Miles, Huberman and Saldana, 2014). An aim in the research is to describe the founders of INVs in such ways that they would not be recognizable in the public. This is why aliases were given to the research participants and the country of origin is not mentioned next to the startup idea, as this could potentially cause the founders to be identified. The names of the INVs are also not mentioned. It will also be crucial to adhere to research integrity, which is achieved by making sure to avoid all plagiarism and using meticulous citations throughout the thesis.

Limitations are a necessary part in research to sharpen the focus on a relevant issue. In this respect, this study focuses on the experience that foreign founders have when they have located to Estonia to start their INV and what information this might provide about their location choice. The first limitation is that, as there is not much information about the location choice of INVs, many theoretical insights are adapted from MNE location choice theory. Here, not every theoretical contribution can be evaluated, but resources, transaction costs and institutions are assessed.

Knowledge spillovers and cluster theory were also evaluated but were left out as they were not relevant to the interviewees. Other alternative focuses in MNE location choice research might prove to highlight different areas for INV location choice, posing the first limitation for the research.

The second limitation to the research is that only one startup programme from one country is studied, making it impossible to examine between-country and cross-national variations to the foreign founder's location choice, as Nielsen, Asmussen and Weatherall (2017) have suggested. Thirdly, the interview participants were asked about their location choice in retrospect, meaning that they had already located to Estonia and were evaluating their choice of location at the time of the interview. This provides information about their satisfaction regarding the location but might not clarify as clearly what made them initially choose Estonia. To understand this, the timing of the interviews should be prior to locating to Estonia and different theories could be applied as well. Nevertheless, the foreign founder's retrospection does provide valuable insights on their initial evaluation of the location and how this then affects their entrepreneurship process.

The fourth limitation in the data analysis is that it focuses on the connections between the factors of resources, transaction costs, transaction cost efficiency and institutional conduciveness and not just on the codes of these factors themselves. The aim is to bring forth the interrelationships between these factors. This focus is valuable as through these connection new ideas and observations can be derived, which are not reflected in the theoretical literature review. The aim was to formulate the shared understanding of founders from these connections.

Lastly, the fifth limitation is that the locational advantages of Estonia are not crystallized as definite locational advantages that the INVs need for their location choice. In this thesis no listing or categorization is provided of those locational advantages that are important for INVs. Rather, the locational advantages are viewed by how their interact with the entrepreneurship process and the perceived transaction costs. The locational advantages can thus be conceived as Estonia's "offering" that interact with the process of forming the INV and the perceived "hardship" of locating to a foreign country to establish a business.

4. RESEARCH CONTEXT

The chapter on the research context first gives a brief overview of the startup visas worldwide, after which more information on the startup visa in Estonia and the Startup Estonia programme is given. Next, the entrepreneurial ecosystem of Estonia is delved into by use of popular entrepreneurship rankings by Global Entrepreneurship Monitor (Singer, Herrington and Menipaz, 2018), Global Entrepreneurship Development Institute (Ács, Szerb and Lloyd, 2017) and the World Bank Group (2018). Lastly, the eight research interviewees are briefly introduced.

4.1 Start-up visas around the world

In the past couple of years startup visa programmes have become increasingly popular as currently fifteen OECD countries offer expatriate start-up visas worldwide (Table 3). These startup visa programmes are trying to attract high-quality and high-growth startups, or startup founders that want to establish their venture in a foreign country (Smale 2015; Efendic 2016). These programmes are most-often supported by governmental policies. In the case of Startup Estonia, the programme aim is to invigorate the national entrepreneurial ecosystem and to provide economic growth and development (R. Riistop, personal communication, October 18, 2017). Startup visas provide a temporary residence permit to such founders that show high potential, but do not fulfil the "business immigrant" visa requirements which would require higher investment capital (Ley, 2003). The temporary residence permit can be extended, dependent on the ventures' success and growth (Volchek, Efendic and Terjesen, 2016).

Table 3. Startup visa and migration policy initiatives in OECD countries (Volchek, Efendic and Terjesen, 2016).

Country	Year	Programme Name
Chile	2010	Startup Chile
Australia	2012	Biz Talent, Biz Innov&Invest
Ireland	2012	Startup Entrepreneur
Denmark	2013	Launchpad
Canada	2013	Entrepreneur startup visa
South Korea	2013	D-8-4 Startup visa
Spain	2013	Ley de Emprendedores
UK	2014	Sirius
New Zealand	2014	Entrepreneur work visa
Italy	2014	Italia startup visa
Netherlands	2015	Residence permit for foreign startups
France	2017	French Tech Ticket
Estonia	2017	Startup Estonia
Lithuania	2017	Startup Lithuania
Finland	2018	Startup visa

4.2 Startup Estonia

Startup Estonia is a publicly funded organisation that aims to develop Estonia's startup ecosystem by arranging the startup visa programme, organizing networking events and encouraging investors to provide funding opportunities in Estonia (R. Riistop, personal communication, October 18, 2017). The startup visa is available for non-EU founders who wish to come to Estonia to establish a startup. The scheme targets high-impact ventures, by making it an eligibility requirement that founders have a technology-based, innovative and scalable start up idea that has global growth potential (Startup Estonia, 2019). According to Mr. Rivo Riistop (Startup Estonia Programme Manager), the visa scheme was initiated in 2017, because of a need for skilled and experienced talent to fuel the growth of startups, which is not saturated by Estonia's own small population and their university graduates (R. Riistop, personal communication, October 18, 2017). The biggest interest for the startup visas has come from the markets of India, Ukraine, Russia and Turkey (R. Riistop, personal communication, October 18, 2017). Once accepted into the programme, applicants can apply for the start-up visa (3 or 12 months). After registering a company in Estonia, founders can apply for a temporary residence permit of 5 years. With the startup visa, the applicant

can bypass the general investment requirement of 65 000 Euro for an entrepreneurial residence permit in Estonia (Nergi, 2018).

Besides the startup visa, the founder can also apply for an e-residency, which is a government-issued digital identity, through which the business can be managed remotely from anywhere in the world (e-estonia, 2019). E-residency allows its holders to establish a trusted EU company in one day. It also enables its holders to access business banking, use international payment providers, digitally sign contracts and declare Estonians taxes online (e-estonia, 2019). Besides attracting startup founders and e-residents, Startup Estonia also organizes startup visas for non-European employees who want to work in an Estonian-registered startup (R. Riistop, personal communication, October 18, 2017).

4.3 Estonia as an entrepreneurial ecosystem

To get an overview of the Estonia's entrepreneurial ecosystem, reports from Global Entrepreneurship Monitor (Singer, Herrington and Menipaz, 2018), Global Entrepreneurship Development Institute (Ács, Szerb and Lloyd, 2017) and the World Bank Group (2018) are used to assess how attractive the Estonian ecosystem is for a foreign founder. These reports are especially valuable as they provide macro-level information about the assessment of entrepreneurship dynamics and activities in multiple countries.

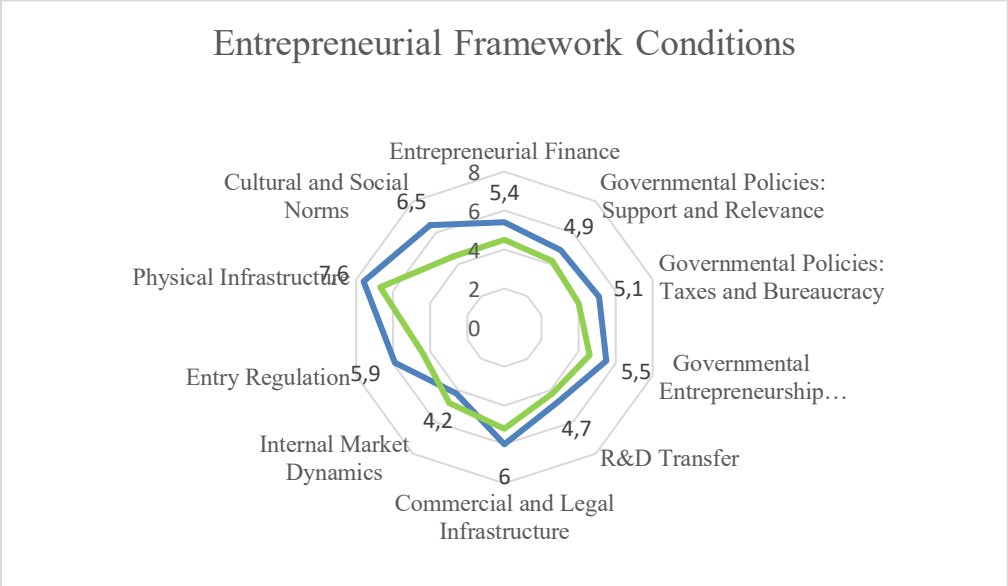

Figure 6. Entrepreneurial framework conditions for Estonia in blue, EU average in green (Singer, Herrington and Menipaz, 2018)

The report of the Global Entrepreneurship Monitor (Singer, Herrington and Menipaz, 2018) provides information on how sufficient or attractive the framework conditions of Estonia are for the needs of entrepreneurs (Figure 6). Figure 6 is rated on a scale of 1 = highly insufficient to 9 = highly sufficient. Estonia portrays a 5 on most aspects of the framework (blue line), which is higher than the EU average (green line). Compared to the EU average, Estonia fares exceptionally well when it comes to its culture and social norms, entry regulations and the government policies regarding taxes and bureaucracy. Estonia also fares well on its physical, commercial and legal infrastructure, just like other European countries. Nevertheless, its internal market dynamics are still low even if advancing, as Estonia reflects an emerging economy of Eastern Europe with a past in which entrepreneurial advances have been stifled under communist rule (Manolova, Eunni and Gyoshev, 2008).

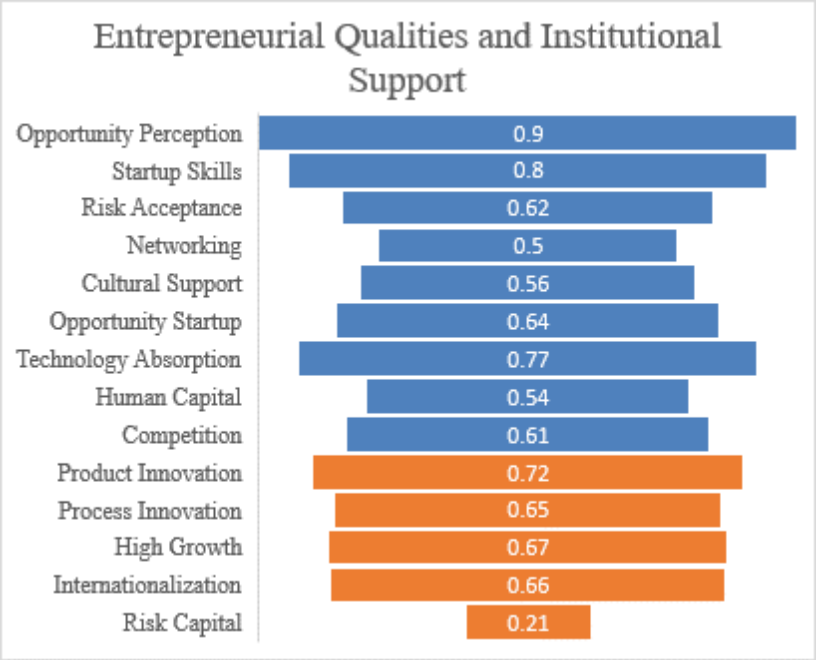

Figure 7. Entrepreneurial Qualities (blue) and Institutional Support (orange) on a 0-1 scale in comparison to 137 countries worldwide (Ács, Szerb and Lloyd, 2017)

The report of the Global Entrepreneurship Development Institute (Ács, Szerb and Lloyd, 2017) focuses on the entrepreneurial qualities that people in Estonia possess, but also the quality of institutional support that entrepreneurship obtains in the country. From 137 countries worldwide, Estonia ranks 23rd (Ács, Szerb and Lloyd, 2017). Figure 7 shows these entrepreneurial qualities in blue and their institutional support in orange. For each country, the values are distributed on a scale from 0 to 1 when compared to all 137 investigated countries worldwide. A higher value (closer to

1) means that a country fares especially well in this aspect compared to other countries in the ranking.

Estonia fares exceptionally well in opportunity perception, startup skills and technology absorption. While opportunity perception and startup skills refer to skills of the local population, technology absorption is particularly attractive for the foreign founder, as it shows how quickly new technology is absorbed in Estonia. For this thesis, the institutional support that foreign founders are able to profit from in Estonia is important. Product innovation, process innovation, high growth and internationalization are all relatively good in Estonia, but risk capital in Estonia is relatively low. Risk capital is the capital available from individual and institutional investors in the country and an important consideration for the foreign founder (Ács, Szerb and Lloyd, 2017).

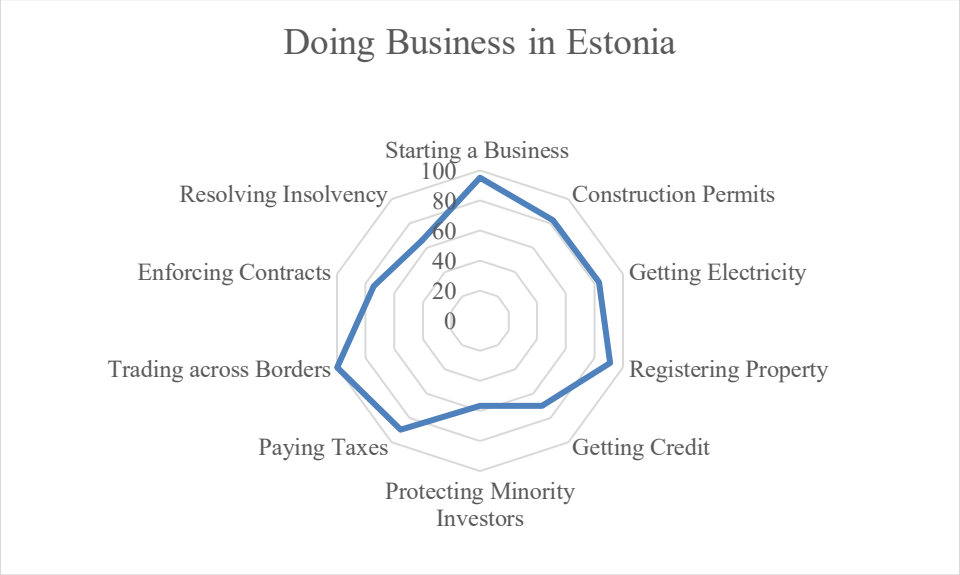

Figure 8. Doing Business in Estonia (World Bank Group, 2018)

Figure 8 shows the *Doing Business* ranking of the World Bank Group (2018). This measures business regulations and their enforcement in 190 countries worldwide, especially those regulations that apply to small and medium-sized companies. Out of 190 countries Estonia fares 12th. Estonia is especially efficient in trading across borders and starting a business, which are important aspects for the global INV that aspires international operations from inception (Oviatt and McDougall, 1994). According to the ranking, Estonia faces challenges with getting credit, protecting minority investors and resolving insolvency, which are all challenges within the

financial segment. For the foreign founder the challenges to get credit and the weak position of minority investors might be a significant hurdle to get investments in Estonia.

4.4 Interviewee descriptions

In total, eight interviewees took part in the study (Table 4). In this section some relevant background information is given about the participants that help to understand the research findings and discussion. In general, these participants are very well educated and have work experiences that support their startup idea. Most of them also have international experiences and are building their international networks. These experiences match the descriptions of Cavusgil and Knight (2015), through which founders are able to build their ownership advantages despite resource scarcity.

Most of the interview participants come from or have strong ties to regions of Asia: Northern Asia (Russia), Central Asia (Kazakhstan), Western Asia (Iran, Dubai), Southern Asia (India, Pakistan) and South-East Asia (Malaysia). However, there are also two participants with strong ties to the US who want to establish operations in Europe.

Table 4. Information about the eight interview participants

Alias Name	Startup Industry	Founders/ employees	Stage of Business, May 2018	Funding
Vesper	Aviation	1	Ideation and looking for co-founder	Not yet looking
Martin	Space technology	3	Prototype assembly	European Space Agency (Estonia)
Tom	Financial technology	3+ (funding 8-10 more)	Market planning and finalizing investment	In talks with investors (Germany, UK, China, US, India)
Enrico	Social media	3	Connect prototype to social media and blockchain	Looking for investors
Xavier	Building management	3	Connect prototype with secure credit card processing and EST ecosystem	Talking with VC from Netherlands
Unna	Financial services and recycling	7	Finalize business model and getting investment	Funding from accelerator in Norway
Anapa	AI product to do programming	1 (hire more in 6 mo.)	Building prototype	Not yet looking
Darius	Global shipping	1	Building prototype	Not yet looking (connections in India)

Vesper is an aero-space engineer who wants to bring a change into the aviation industry by creating a platform through which the purchase of aircraft parts would be made more transparent and easy. His current ownership advantages are his startup idea and in-depth industry knowledge. In Estonia he wants to profit from the hype for startups and to meet like-minded people, in the hopes of finding a co-founder or suitable advisors. He has difficulties finding the right people in Estonia and is therefore considering networking in the aviation cluster in Berlin.

Martin is a radio engineer and computer scientist who chose Estonia's startup visa to be able to profit from the favourable startup ecosystem to do a quick product development with his two co-founders. The team is developing a satellite radio optical communication solution. They have also received funding from the European Space Agency, which has recently begun activities in Estonia.

Tom has his background in IT and commercial finance and has created a money transfer business that is based on blockchain. The startup was founded by himself, although he now has a business partner. In addition, he also has an employee working on the intellectual property front and research associates on a contract basis. After securing investments, he will hire 8-10 more team members. He is currently doing market planning, finalizing investment and reviewing how the solution can be created with an open application programming interface. He has created base operations in Estonia and also has operations in UK and Germany. In the UK he wants to get approval to the UK's regulatory sandbox of the Financial Conduct Authority to test his product in a controlled environment. In Germany he and his team are doing part of the research and team-building activities.

Enrico is an electronic engineer and IT specialist. With his two co-founders, he is working on a startup to connect migrants with people from destination countries to provide accurate and relevant information about the living conditions. This solution is connected to social media and he is working to move it to blockchain. In Estonia he wants to profit from the beneficial startup ecosystem and digital infrastructure.

Xavier is an engineer with a background in telecommunications. With his two co-founders he is in Estonia to be able to exploit the beneficial startup ecosystem to do their product development for their startup. His startup provides a building management solution through which all administrative issues such as maintenance, delivery and neighbour communication can be managed. He is talking with a venture capital firm (VC) from the Netherlands and in case they come to terms, then they would relocate to the Netherlands.

Unna has his background is risk management and engineering and is creating a startup solution in which financial services are linked to recycling. He wants to provide banking solutions to the population in South-East Asia without access to banking services. For this, he wants to incorporate the technology best-practices and ethics from the Nordics. According to him, Estonia is great for product development. However, he has joined an accelerator programme in Norway, which provides funding and more advisory support to finalize the business model for his startup. Unna nevertheless plans to keep operations also in Estonia, because of the cheaper costs in Estonia and his Estonian co-founder. Altogether, he has two people working in Indonesia, two in Estonia and two interns in Oslo.

Anapa is a programmer who is building an artificial intelligence product that would be able to do automated programming for, e.g. websites, online marketing and mobile applications, without the need of a real person. Currently he is building the prototype, that is about 60-70% ready. By June 2018 he plans to have a minimum viable product, after which is was thinking of raising some funding. He enjoys the social culture and positive startup energy that can be experienced in Estonia.

Darius is an engineer with a programming and telecommunication background. He is a very well-connected businessman with many contacts with VCs and talented programmers. At the moment, he is in Estonia to build a product in a bit secluded and supportive ecosystem. He wants to build an online platform for a global shipping company for about a year, after which he will raise investments and build a team. He finds that Estonia has very good conditions to get programmers from around the world and also to retain these, due to the limited funding and competition in Estonia's startup environment.

5. FINDINGS

The findings of the data analysis are presented by reflecting the main factors of location choice in the theoretical framework (Figure 3, p.36). Resource development and the institutional environment have their own sections, while transaction costs and transaction cost efficiency are considered within these sections. The founders' attitudes towards transaction costs and transaction cost efficiency within resource development and institutional conduciveness inform the effort and value that founders perceive to receive from this match. Transaction costs and transaction cost efficiency are therefore an integral part to understand and connect the topics of resource development and institutional conduciveness.

The themes that emerge from the data analysis can be seen in table 5 below. The first section focuses on resource development and its themes. These depict resource-bundling concerns of the founder, such as how to develop the startup (here: product development) in Estonia, getting sufficient talent and investment as well as organizing future access to international markets and resources. The second section focuses on institutional conduciveness and how themes, such as the digital infrastructure, regulations and bureaucracy, outsourcing and the startup visa influence the founder's ability to develop competitive resource-bundles in Estonia. Each theme is presented in its own subsection. Together these findings provide insights into the locational advantages of Estonia and how these influence the foreign founder's resource-bundling and entrepreneurship process.

Table 5. Themes on resource development and institutional conduciveness that emerged from the data analysis

Resource development	Institutional conduciveness
Product development and the Estonian startup ecosystem	Digital infrastructure
Finding and getting talent to Estonia	Regulations and bureaucracy
Getting funding	Outsourcing
Estonia as a base to set up hub operations	Startup visa programme

5.1 Resource development

For the section on resource development, the main considerations are the unique locational needs and circumstances that foreign founders have and how these influence the founder's ability to develop ownership advantages in Estonia. The themes that emerged for this topic are product development and the Estonian startup ecosystem, finding and getting talent to Estonia, getting

funding as well as Estonia as a base to set up hub operations. A guiding regard is to determine how the Estonian startup ecosystem and its locational advantages are used for the development of the foreign founder's startup.

5.1.1 Product development and the Estonian startup ecosystem

The interviewed startups have come to Estonia for the purpose of developing their startup. They have already passed the preliminary ideation stage, which is necessary to get the startup visa. Currently, most founders are in the stage of product development, which is understood as the phase were founders are building or finishing up their prototype. Most of them are also not yet in the business development phase, in which investment is searched for and the business is scaled up. For Darius and Unna, Estonia is especially well suited for building the prototype. *"No Estonia (is not for business development), it's actually great for product development"* (Darius). Founders are currently developing their prototypes with the ecosystem that Estonia offers. For product development, founders have mentioned that they have come to Estonia because the ecosystem matches their product development needs, or it is considered to be a very efficient ecosystem for product development. The findings on how the ecosystem in Estonia interacts with the product development can be seen in table 6 below.

In table 6, as with all the next tables in which the findings are presented, each theme is presented by dividing the content into common motifs. These common motifs were established in the data analysis and show the aspects that are impacted in each theme. For instance, the foreign founder's product development in the Estonian ecosystem is affected by home constraints, the possibility for speed up and quality enhancements. In these tables, abbreviations are used such as for Estonia (EST) and face-to-face communication (F2F), venture capital firms (VC), headquarters (HQ) and financial technology (FinTech). The contents of these tables are summarized data codes from the interviews.

Table 6. Findings on product development and startup ecosystem

Common motif	Home constraints	Speed up	Quality enhancements
Martin		Able to build prototype quickly as ecosystem (administrative, supply, facilities) make the location easy to use. Surprised how many services and logistics a small country has	
Tom	They could not build product in home location, because of some regulations there (payments one way blocked)		He can mix and match his pool of resources by getting them from abroad. This results in quality enhancements
Enrico	Difficult to develop project in home location (restrictions on social media)	In EST to register a company takes 40 min, in home location 3 months. This makes it easy for entrepreneur	
Xavier	Needed a secure credit card processing solution (not available in-home location) and waiting also for an advanced solution which they are hopeful will come to EST soon (because hype for Tec)	Incorporate a company efficiently with ecosystem. They want to do business easily and make product ready as soon as possible	
Unna		EST has many services. Social support and collaboration culture also helped him start out with the startup	Exceeded his expectation in product advantages and learning (simplifying user journey, digital). Want to learn best practices and ethics in EU and bring technology to developing countries
Anapa		The positive hype in EST keeps on stinging you until you become successful with your product. This energy benefits motivation for product development	
Darius		In small community it is easier to focus on and have time to build your product	Great design sense in EST, especially user interface and experience

Home constraints

When it comes to their particular product development needs, some startup founders are not able to build their product in their own home country, mostly due to either adverse regulations or lacking technological infrastructure. In the home location the project: *"cannot be developed, for*

this (social media) project especially. It needs the right ecosystem to develop and moving to Estonia gives us the right ecosystem" (Enrico).

The institutional environment in some founders' home location were not considered to be very supportive for developing a startup. The aspects that were identified as most detrimental were conditions of the regulative dimension, especially the blocking or restrictions on social media and outward remittance options. Tom explains: "Y*ou can send Dollars, Euros or Pounds to (home location) through third-party companies, but we cannot send money outside through third-party companies. We have to do it through our banking system only. So it is one-way blocked. So, to develop any product with these regulations is nearly impossible. If I need to create a remittance solution, I need to have both-way experiments. And not have it one-way. That was the main reason I had to opt-out of (home location)"* (Tom).

Another reason why Estonia was perceived to be more suitable for product development is that founders needed some special features in the startup ecosystem that founders believe to be available in Estonia. For instance, Xavier needed a secure international credit card processing solution and some advanced digital banking channels which they believed to be soon available in Estonia due to the digital hype. *"I know for sure that it won't take long for them to implement the solution (Stripe payment) in Estonia, because Estonia is creating a hype of the internet"* (Xavier). Estonia is shaping an image of being very advanced in technological and e-governance aspects, which attracts founders looking for this kind of environment. Thus, founders chose institutional environments which are better for their product development, either due to adverse regulations or lacking technological infrastructure in their home locations.

Speed up

The ecosystem in Estonia is also regarded to be very efficient for product development, because it enables founders to do a quicker and more focused product development, to which they also get social support for. *"What really impressed me was that in Estonia, it was so quick, so that thing's really move fast. That was really amazing. (…) And I see a lot of opportunities in Europe and a lot of energy in Europe for startups"* (Vesper). The enhancements to the product development speed and is shaped because the digital infrastructure and the institutional environment make administrative tasks such as registering a company very easy and quick. In Enrico's home country: *"when you want to register a company it takes three months, but if you want to register a company*

in Estonia, it takes almost 40 minutes. (...) So, when governments try to facilitate everything and make it easy for you, it makes an entrepreneur happy" (Enrico). Xavier even says that in Estonia he sees an easy solution to build his product: *"We need a simple solution. Where we can just go and incorporate a company and focus on our technical part and the rest should be handled"* (Xavier). Estonia appears to have many services that founders can use to outsource tasks, which also enhances their focus on product development (see outsourcing, p.79-80). Moreover, the ability to do focused product development derives from the perception that the digital environment and the small community in Estonia do not pose too many distractions, making it easier to focus on product development. *"I just want to stay in a peaceful place with a small little community and I want to focus on building the product, that's it"* (Darius). This gives founders the perception that they do not need to waste time on administrative tasks and can focus on the actual product development.

The social support within the ecosystem, especially the positive hype and collaboration culture for startups is also experienced as positive by all participants and to benefit the motivation to do product development. As one founder mentioned: *"I went to 5-6 startup offices in Estonia. It was very fascinating and they know what they are doing. So, you get this kind of positive energy when you meet these kind of energetic people"* (Anapa). Anapa reasons that hearing all the pitches and stories in the events push founders towards success and motivate him to use his own capabilities and resources most effectively in Estonia. Of the programme he says that: *"they want to push founders towards success and everything"* (Anapa). Also Unna believes that Estonia is a good place to start with the product development: *"I think it was a very good move, starting out in Estonia (...) it was more the support that we got. Not just from other startups, but also from the government people and Startup Estonia"* (Unna).

According to Xavier, the ability to speed up the product development process comes less from learning or development aspects, but more from the ability to efficiently exploit the startup ecosystem. When asked about the ability to develop resources in Estonia, Xavier mentions: *"Not really. The resources are still the same. The purpose to move here is to incorporate a company. I don't see resources here, which I can get. Apart from the help. (...) I would say that if the politicians do not interrupt the commercial culture here it would be the best thing that they could do for companies to come. Like I would say that if they are not influencing us to do anything for*

them (… like) to encourage people to learn their language, even though it's kind of useless for a newcomer" (Xavier). This demonstrates the preference of some founders like Xavier and his team to avoid interruptions, like taking language classes, so that they could focus on efficient product development. These language classes can be viewed as part of a political agenda that aim to encourage the acculturation of foreign founders into Estonia. In the opinion of Xavier this is not appreciated amongst startups focusing on efficient product development. In essence, Estonia's ecosystem is perceived to enable an efficient product development, because the institutional environment and digital infrastructure facilitate and speed up administrative tasks and the social environment motivates the founder to do effective product development.

Quality enhancements

Founders find that being in Estonia also leads to some quality enhancements during product development. These come from the possibility to make unique international teams and new learnings in technology and design. An edge of Startup Estonia is the ability to hire people from outside Europe due to supportive visa regulations (see special hiring and digital skills, p.66-67). This is mentioned to lead to unrestricted talent search worldwide and quality enhancements for the product. *"Let's say I get a couple of resources from Ukraine, a couple from Sweden and Helsinki and also from Estonia and then a couple of resources from India. So, then it's a mix of talent. (…) They share experiences and then everybody looks from a third-eye view at the product. I guess that enhances the chances of quality enhancement of the product. (..) If I can mix-match my pool of resources, the development becomes better and my product gets enhanced"* (Tom). Thus, the special hiring circumstances to freely hire talent worldwide enables founders to create international teams, which may provide quality enhancements to the product.

The quality of the product can also be improved by learning opportunities, for which Estonia is regarded as a technological frontrunner in digital solutions (e.g. e-governance), while also possessing great design awareness. This digital knowledge is easy to absorb as*: "there are many local experts, so you pick it up very fast"* (Unna). Especially Unna wants to understand digital solutions and the ethics behind these so that they can be used for his product development. *"We would like to bring the relevant technology in Europe to developing countries"* (Unna). Besides digital competencies, it is also perceived that *"for the design Estonia is a great place"* (Darius). Here, simplifying the user journey and making enhancements to the user interface and experience

can be achieved through design. Quality enhancements are thus experienced through the international teams and knowledge in technology and design. Nevertheless, these learnings came as a positive surprise and were not expected from the start. *"In that sense moving to Estonia kind of exceeded my expectations, because when I moved there it was more for development. I did not think too much about what would impact, or what would the product advantages be"* (Unna).

5.1.2 Finding and getting talent to Estonia

As most of the founders are in the product development stage, they already have a team of co-founders from their home-country or other locations. It is only Unna who found a co-founder in Estonia and Tom is actually looking for a co-founder but cannot find him in Estonia. This means that the founders do not yet have an urgent need to hire personnel. Nevertheless, most founders feel uncertainty whether they can find suitable human resources in Estonia. *"What I have learnt is that the resource is a problem (in Estonia). It is not easy that you can find people right away over there"* (Vesper). Findings regarding the talent in the region and the specific advantages of the Startup Estonian programme affecting the foreign founder's ability to find and hire talent are summarized in table 7.

Table 7. Findings on finding and getting talent

Common motif	Talent in region	Special hiring and digital skills
Vesper	Needs people from his domain but can't find them in EST because everybody talks about FinTech	
Martin	Might not be the best place to find people	Because of digital, they can have subsidiaries or people work remotely
Tom	There are many technical resources in the region. Special but critical skills might not be available	He can find and get talent from anywhere in the world
Enrico		EST has additional benefit to use resources outside EST (remotely e.g. from home location)
Unna	He also needs good quality tech people and finds good developers in Nordics	Additional benefit: hire a non-EU employee and issue them a visa. In EU it's difficult because normally only for founder
Anapa	Some developers are here but many go to US for high paid jobs. He can use Jobbatical to search for some	
Darius	Easy to absorb programmers as there are not many funded startups in EST (has not done so yet). People with good design skills	

Talent in the region

Estonia is a small country with less than 1.5 million inhabitants (Worldometer, 2019) and provides access to the Baltic and Nordic regions. For Unna, this region is very promising: *"For me it's the Nordics. It is an untapped area, like why do people not think about the Nordics. Why are they going to Silicon Valley, China or maybe Berlin? The Nordics has the highest amount of innovation after Silicon Valley in the world"* (Unna). In fact, Unna has been able to find a co-founder and good tech people in the Nordics. Also Tom find that there is much technical talent such as IT or blockchain specialist in the Nordics and that he can access these well: *"So this entire region has got good resources (i.e. talent) available for the kind of project I'm looking at"* (Tom).

Tom however also finds that more specialised talent (i.e. money laundering, fraud analysis) might not available in the region, so he needs to find them elsewhere. This sentiment is shared by Vesper and Martin, who demonstrate uncertainty to find people from their domain in Estonia. Vesper comments that: *"I think I am stuck on one fundamental challenge. So, finding people from my domain. The people that I interact with are talking about FinTech"* (Vesper). In essence, technical talent seems to be available in Estonia, but founders also face uncertainty to find talent in the region. This might be due to a liability of foreignness, or just due to a scarcity of certain talent and skills in the Nordic and Baltic regions.

Special hiring and digital skills

Startup Estonia proposes a special arrangement, by which startup founders can hire employees from outside of EU and get them a visa in Estonia. This is significant as: *"I kind of liked how in Startup Estonia, the programme, you could hire non-EU employees, that you could issue them a visa. Practically everywhere in EU it is difficult to issue such a visa, because startup visas are only for the founders"* (Unna). This makes the startup visa particularly attractive to those founders with a strong network outside of the EU and who would like to bring talent to Estonia.

This arrangement encourages founders to search for resources and talent abroad and bring them to Estonia. *"In starting resources, I might not find them in Estonia, because Estonia is a small country and their resources have not seen the outside world exposure. If I consider my field of expertise, (…) I will not find them in Estonia. So, I need those resources either from India, UK or maybe from US. (…) For typical IT resources, I can find them locally from Estonia, Ukraine, Latvia or Helsinki. But critical resources (….), these kinds of resources I might not find them in*

Baltics, so I have to look out for them in different parts of the world" (Tom). Thus, asset specificity is mostly shaped by the fact that founders can hire talent worldwide. Nevertheless, this process results in higher transaction costs and uncertainty for founders as they will need to search elsewhere for talent.

In addition, Startup Estonia facilitates the use of foreign talent through the flexibility that the e-residency of Estonia offers. With the e-residency, founders have a digital presence in Estonia without being physically present in the country. Therefore, founders and potential employees, from all over the world, can work remotely on the startup. If Martin cannot find human resources in Estonia, then: *"we will have either some subsidiary or we will have people work remotely, so that we don't need to figure it out"* (Martin). Thus, as it is uncertain if suitable talent can be found in Estonia or the nearby regions, Startup Estonia offers founders the ability to hire non-EU citizens and a digital identity through e-residency. This provides flexibility and the possibility to hire and work from anywhere.

5.1.3 Getting funding

Most of these founders are still working on product development and have not given investment considerations too much thought. In this sense, these founders, except Martin and Unna, have also not yet secured additional funding beyond their own savings. Nonetheless, the three founders with a more concrete plan to get investments are planning to get funding from abroad. Table 8 below displays the two main common motifs in this theme, which are uncertainty to get funding in Estonia and how this drives their orientation towards international investment sources.

Table 8. Findings on getting funding

Common motif	Uncertainty to get funding in EST	Reliance on international sources
Martin		Got funding from European Space Agency
Tom	To get investments in Nordics, Baltics, it's more difficult as a third country citizen. Also, if they would've known about public funds (info also for non-nationals) they would not have burned that much money in the start	He is looking for funding internationally
Xavier	If he would secure investments, then he would disregard costs more. He says that many companies get investments and then move out of EST	He is talking with VC from Netherlands
Unna		Got investment from accelerator programme in Norway, so now HQ there
Anapa	EST is ok to get funding, there are many investor companies. But you need to show something before they give you funding (hasn't tried yet)	
Darius	There is not much money around in EST, people raising small funds	He will get investment from India (network) he just needs to figure out the legal steps (tax deduction) of how money gets back and forth

Uncertainty to get funding in EST

Plans to get funding internationally are amplified by uncertainty to get funding in Estonia. *"A couple of founders I have met here who have raised for small funds. They are telling me that funding is a problem. Not a problem, but there is not too much money. Money is not approaching from anywhere and an idea cannot do anything without money"* (Darius). Even if there are investor companies in Estonia, Anapa says that: *"they usually want you to show something (i.e. prototype) before they give you some funding."* And when asking him if he already has received some funding, he says: *"no, I am not planning to do it at this moment, because I have my own savings. I will establish my business myself and then I will raise some funding"* (Anapa). This means that founders are encouraged to first build their startup (i.e. finish initial product development) and only afterwards they apparently have a chance to get investments in Estonia.

Besides these limitations to get funding in Estonia in general, there is also the additional problem of getting funding as a foreigner. *"For a third-country national to raise funds on an innovation idea it is quite tough in the region I am setting up right now"* (Tom). Tom finds that it is still very challenging to get investment as a foreigner and is going to the UK and elsewhere to get an investment. He also says that information about public grants in Estonia were not available in

English language. *"In the earlier stages, we were not able to access these public funds or grants. We had to burn down some of our own funds to do some basic activities. (…) We thought that if we could have access to these funds, I would have saved around 15 000 or 20 000 Euro a year"* (Tom). Thus, founders experience uncertainty to find funding in Estonia in the current stage that they are in, while also facing the liability of foreignness to receive funding in Estonia.

Reliance on international sources

These founders thus rely on their international networks (e.g. Darius) or on other accelerator programmes (e.g. Unna) for funding. Unna actually became part of another accelerator programme in Norway, because this programme provided funding and a better fit for the startup. *"At least on paper, our HQ is Oslo. Because of the accelerator programme we had to register ourselves in Norway and then we got funded there"* (Unna). This sentiment is also reflected by Xavier, who is talking with a VC in the Netherlands*: "When we are ready to accept that proposal, their criteria states clearly that you have to relocate to Holland"* (Xavier). This demonstrates how investors might be able to exert pressure when it comes to the location choice of founders. Indirectly this is also supported by Darius's quote and his many dealings with investors while being part of a VC for a year. *"As of now, I don't have any investors' money. So, there is no pressure from investor's side on the location choice. (..) I am a totally independent person"* (Darius).

Even if the startup wants to keep its HQ in Estonia and gets investment from abroad, then Darius is not certain about regulatory difficulties. Investors have questions: *"like how the money will come here (to Estonia) and how the money will go back to them. So, what are the legal steps and how much is the tax deduction from the law and tax perspective"* (Darius). These are knowledge gaps that need to be filled for the foreign founders. To summarize, founders search for investment abroad by relying on networks, VCs or other accelerator programmes. Uncertainty is experienced on how money can be transferred between countries, or if the HQ actually needs to be relocated to where funding is received.

5.1.4 Estonia as a base to set up hub operations

Currently, when asking about the technological clustering potential of Estonia, Xavier responds: *"It has only one potential. That is to make your business (and that it makes) you do your business more efficiently"* (Xavier). Nevertheless, from the interviews the notion emerged that founders can use Estonia as a base for their current operations, which also permits them to shape hub operations

internationally. A hub is defined as a centre around which other things revolve (FreeDictionary, 2019). In this study, a hub is understood as a central location from which a founder can get access or shape operations in other locations. This subsection discusses the hub operations of founders, the aspects that make Estonia attractive as a base and the operations for which it is currently considered especially suitable. These findings can also be seen in table 9.

Table 9. Findings on Estonia as a base and hub operations

Common motif	Hub operations	Base attractiveness	Base operations
Vesper	Cluster Berlin is easier to find like-minded people but more expensive than EST. Possibility to keep company in EST but network and get resources in Berlin	Cheap, access EU, fast/easy	
Martin		E-services, fast and easy incorporation	Want to do their product development in EST. Afterwards will look where to find resources
Tom	The starting resources you cannot get in EST because small country. You need to find them from elsewhere and then mix and match. Has operations in EST, UK, Germany	Cheap and easy	Efficient for R&D and team building
Enrico		Cost, easy and EU access	
Xavier	Every company that comes to EST is managed remotely or moves somewhere else	Tax, cost, easy and digital, image	
Unna	2 people in Indonesia, 2 in EST, 3 in Oslo. His HQ is now in Oslo, because programme and funding. Region agnostic, so does not matter where he is based. Access to new networks		Moved to EST for development
Anapa	He can keep on going to learn somewhere else or get funding, but will keep business in EST	Digital, access EU, culture	
Darius	He himself is region agnostic. But he will keep design and development team in EST, not the business team	Cheap and great internet	Keeping design in EST because environment supportive for design

Setting up hub operations

In this study the finding emerged that startup founders might have part of their operations in Estonia and other operations elsewhere. This gives the impression that founders are setting up international hub operations, for which Estonia provides good base conditions through its entry regulations and digital identity. *"Then again, perhaps Estonia is the place where you keep your*

company and you do the things in Berlin. But how is that, I am paying my taxes in Estonia but somebody else is feeding me in Berlin. That personally or morally is not right for me. But I learnt actually that that is happening. Companies have offices in Estonia, but they are in other countries" (Vesper). This circumstance is permitted by the digital identity, through which founders can work remotely on the startup from anywhere in the world.

Two of the founders already have operations in multiple countries. For instance, Unna now has his HQ in Oslo, but has people and operations also in Indonesia and Estonia. Meanwhile Tom has operations in Estonia, UK and Germany. Being able to have hub operations creates asset specificity for founders. For Shaun a benefit of having operations in multiple places is being able to access different networks, which is also his self-claimed unique resource. Tom, on the other hand, finds that he can mix and match talent well through the special hiring ability in Estonia, but he still needs access to other countries as he cannot find investment or some specific talent in Estonia. For him, Estonia is a base that enables him to connect different resources to each other.

Other founders are still considering the option to go abroad: *"Eventually I can go to other countries to develop my idea and to develop my business further. Like I can visit the Silicon Valley to talk with VCs if I get some funding from them as well as others like from the UK. So I keep going, but I'll be here (in Estonia)"* (Anapa). Similarly, Vesper wants to get access to talent in Berlin, but relocating there would be too expensive. He prefers to be able to profit from the Estonian base: *"Estonia is number one, because Berlin is expensive, like even the resource hiring is going to be expensive and the taxes in Germany are also very high"* (Vesper). He is thus planning to travel to Berlin in search for talent. In general, these founders are pushed to go international due to a need to get more resources such as funding, talent and knowledge.

Base attractiveness

At its core, the founders find Estonia an attractive base for operations, because it is seen as cheap and easy; mostly due to the cheaper living conditions and the digital infrastructure. *"I was researching for the easiest place to set up a business with low costs. (…) And then this thing popped up. That we can register a business remotely in Tallinn through e-residency"* (Tom).

Costs of operating are an important criterion to convince founders of Estonia's base attractiveness, as they do not have many funds in the beginning. *"In the beginning of the days you need to look*

at more cost-efficient options until the time that you get properly funded. (...) And if your project has merit and your idea is good enough, you can access the talent from anywhere in the world. But in the beginning days you need to save money." Nevertheless, for Vesper the operating costs need to remain low even after the beginning days in order for him to keep Estonia as a base. *"I think I will keep the company over there (Estonia) and keep my resources perhaps over there (Estonia). I will have my temporary makeshift residence over there, so that I can then travel between the US and Europe and have my base over there. But if I find at any point of time that there is a country where taxes and operating costs become lower, then I will not think twice, I will move out of Tallinn and move to that place"* (Vesper). This demonstrates that in general costs are important. Nevertheless, this might change if the founder receives funding. Xavier would disregard costs more: *"if we have secured investments beforehand"* (Xavier).

Another important criterion are easy regulations. Founders want: *"A potential base where we can incorporate a company. Where we can run remotely without worrying much about taxes and other legal stuff"* (Xavier). This perception is greatly impacted by the digital infrastructure in Estonia as well as their outsourced services. Oher locations are viewed to be more complicated and have more regulations: *"So I think that the ground base is far better in Tallinn"* (Vesper) than in Canada. Additionally, a base in Estonia also provides access to the EU and a good tax environment. So, for arranging hub operations from Estonia, it is considered to be beneficial to profit from a "cheap and easy" base in Estonia and still access talent, resources and knowledge from elsewhere.

Base operations

During these interviews Estonia as a base is perceived to be especially well suited for product development, research and development as well as design operations. It is good for product development (e.g. Unna, Darius) as you can profit from cheaper living costs and have more focus to build your startup before searching for more resources. Furthermore, because of the design and digital capabilities in Estonia, the location is also considered good for research and development as well as design operations (e.g. Darius, Tom).

5.2 Institutional conduciveness

The main focus in the section of institutional conduciveness is to highlight the locational advantages of Estonia that influence the perceived transaction costs of locating to Estonia. The themes that emerged are the digital infrastructure, regulations and bureaucracy as well as the

startup visa programme. It is interesting to observe how the digital infrastructure influences the perception of regulations in Estonia and how these and the startup visa programme help the foreign founders to overcome institutional distance when locating to Estonia.

5.2.1 Digital infrastructure

Undeniably the digital infrastructure and digital identity is: *"still a dream"* (Xavier) for founders. The digital infrastructure, which includes the e-services, e-governance and e-residency (digital identity), make the experience of doing administrative tasks smooth and flexible, while also promoting the hype for digital and startups. Summarized comments can be seen in table 10.

Table 10. Findings on digital infrastructure

Common motif	Digital providing smoothness and flexibility	Hype for digital and startups
Vesper		Only country identified online for speed of doing things
Martin	E-services make everything easy and fast. E-residency gives flexibility to open company in EST and have other operations elsewhere	
Tom	Technical infrastructure is good for plug and play (internet, webservices)	
Enrico	E-services make everything smooth e.g. insurance, traffic, taxes, government. Good ecosystem for IT solutions	
Xavier	Government investing to make everything smooth for startups. Relocation or remote managing is common	Digital identity a dream that affects startup community culture, energy and offering of new solutions. Can profit from the social media skills in EST to create hype for business. Social media skills promote everything that is good about EST and hide the bad
Unna	EST seemed transparent about information	Digitalised infrastructure, influencing startup heritage and scene. Leader in e-governance with many experts in EST, so you pick it up fast
Anapa	Administrative services easy because they are online	They are crazy about startups. They want to push founders towards success. It's going great so far
Darius		Internet cost and speed is great advantage to attract programmers

Digital providing smoothness and flexibility

Firstly, the digital infrastructure makes the administration seem effortless, because administrative tasks are online and can be done without being physically in Estonia. When asking Anapa if administrative services are easy to use, he replies: *"Yes, because they are all online"*. Besides

being easy to use, these digital services also make administration seem smooth. *"The e-services, (...) it is very interesting because insurance, traffic, taxes, also the total e-government makes it very smooth, everything"* (Enrico). This perceived "smoothness" is even supported by Startup Estonia, as founders perceive that: *"they are trying very hard to keep everything smooth for the startups. The government is (...) investing heavily in anything that I can witness and rebuilding the infrastructure. Like I said, they do not have any natural resources, so their only way to sustain is to make sure that they remain the leader in technology"* (Xavier).

Secondly, asset specificity emerges for the founders because the digital infrastructure and especially the digital identity, enable the founders to have a presence in Estonia while being physically elsewhere. *"We don't need to be physically in Estonia to submit papers. All this electronic government stuff. That was one of the main issues"* (Martin). This makes it easy to find resources (financial and human) abroad while also being able to work and do administration from elsewhere. Xavier even says: *"Every company that is incorporated in Estonia is either relocated to other countries or they are still being managed remotely"*, highlighting that the digital identity seems to be well used by startups in the programme. Thus, the digital infrastructure gives the founder the perception that operating in Estonia is smooth and flexible, as administrative tasks can be done online and the founder can be working or getting resources elsewhere, while keeping the startup in Estonia.

Hype for digital and startups

Besides the recognized smoothness and flexibility, the digital infrastructure also affects the energy and hype that people in Estonia have for startups (Xavier). Anapa finds that this energy pushes people to succeed: *"They are very crazy about startups. They usually host a lot of startup events, throughout the month. Like 10-15 events every month. It's more than enough. They want to push founders towards success and everything. It's going very great so far"* (Anapa).

The hype for startups also attracts people to Estonia. Through its digital and social media advertising skills, Estonia is able to reach and convince people of its startup ecosystem; people that have never heard of Estonia before (e.g. Xavier). In fact, from an online search, Estonia is the only country identified for the speed of doing things (Vesper). For programmers, it is especially the great internet cost and speed, which is a great advantage to get and upkeep programmers in Estonia (Darius). At home location: *"I spend 5 000 Euro a month (for internet), (...) and he said,*

man, you can spend here 100 Euro a month and you can get a great internet connection. (..) But it's a cultural advantage also, (..) they are hungry for internet" (Darius). And because of this hunger for internet, Xavier believes that the new payment solution "Stripe" will quickly be implemented in Estonia. *"I know for sure that it won't take any long for them to implement the solution to Estonia, because Estonia is creating a hype over the internet"* (Xavier).

In addition, the hype supports founders to improve their digitalisation skills and learn about e-governance. These are learned very fast, because there are so many experts and events in Estonia (Unna). Otherwise, founders can also profit from the additional exposure that the hype will radiate on the founders startup. *"So that the Startup Estonia team can focus on our company and then they start promoting us, you see it's an automated process. If you get a little bit of hype in media, then government do your job. You don't have to market yourself"* (Xavier). The digital skills used by Startup Estonia can help build the hype for the founders startups, creating asset specificity for founders. In essence, the hype created by the digital infrastructure is important to influence the startup hype of people as well as their motivation to learn and profit from digitalisation skills. It is also significant in attracting founders and programmers to Estonia, especially by shaping an attractive image online.

5.2.2 Regulations and bureaucracy

The transaction costs of operating in a new country are greatly impacted by the perception of regulations in a new country. In this subsection the findings on how founders perceive Estonian regulations are explained, which can also be seen in table 11. The focus is on the image of quick and easy regulations, the entry regulations and the bureaucratic problems that have come as a surprise to many founders. The perception of regulations is greatly affected by the digital infrastructure, which allows founders to deal with most regulations online.

Table 11. Findings on regulations and bureaucracy

Common motif	Quick and easy regulations	Entry regulations	Bureaucratic problems
Vesper	Regulations make it easy to hire people, set up office and bank account at low costs and fast too		To get residency permit and register company, you need e-residency (even if you don't want it) or operate through notary
Martin	In Italy everything is slow and more bureaucratic. They wanted a country to open company quickly		Difficult to open bank account because no company history. Used outsourced service to register company because there was a problem with digital service
Tom	Searched for easiest place to set up business with low cost. System so efficient that you can do everything by yourself	Investment requirements too high elsewhere	
Enrico	He likes that government facilitates everything, not to make it more difficult		
Xavier	Looked for a place to incorporate easily		Bank regulations (to meet customer F2F) are killing e-residency. Didn't get visa initially. Banks should trust government verification
Unna		Combination of fast and easy entry gives perception of being smooth	Difficulties with bank account and getting residence permit in EST because had Danish visa already
Darius	His feeling is that regulatory stuff not too complicated in EST	Low investment requirements and low cost great to attract programmer community	Tries to get appointment with notary but cannot get it yet

Quick and easy regulations

Estonia gives off the image of having quick and easy regulations, because it is quicker to deal with them than in other countries and they seem conducive to setting up and running a business in Estonia. So for founders: *"Estonia came because it was through the e-residency program. So, it was less headache, in the sense that somebody suggested that, hey, it is just a 2- or 3-day thing"* (Vesper).

In comparison to Estonia, the regulations and the bureaucracy in other countries are experienced to be slower and more cumbersome. *"In Italy it is very bad idea to have a company. A lot of bureaucracy, everything is so slow. (...) The advisor of our company, now he works in France, he*

said that in France everything is also quite slow. (...) With our second look in Europe, we found out that Estonia is the best option for us" (Martin). So, it is often because of its identified speed that Estonia was able to convince founders. For Enrico who was considering other startup visas: *"(I did not apply to those) because very quickly they (Estonia) responded and I have the chance to pursue my startup journey. So, I did not feel that I needed to apply to those countries (Denmark, Italy)"* (Enrico). Interestingly, from an online research Vesper says that: *"In terms of the speed of doing things, the only country that I identified was Estonia"* (Vesper).

The regulations in Estonia are recognized to be conducive to setting up and running a business smoothly. *"The point that I'm trying to make is that you need to be in a place where you can easily do things (..) You cannot have people with so many different regulations. So in those terms Estonia I find it better. (In Sweden) it is not easy that you can just set up a company and get a visa and hire people and do everything"* (Vesper). This ease of doing business and of regulations is also because administrative tasks can all be done online. *"(Estonia is efficient) because I file my own taxes, I do my own accounting. (...) The system is so efficient and so easy. Once you know about it, you can do everything on your own"* (Tom). Thus, Estonia is attractive for founders because it seems easier and quicker to deal with regulations, mostly due to their digital nature.

Entry regulations

The ease of regulations also extends to the entry regulations. At first, it is perceived to be easy and fast to get entry to Estonia through the startup visa. *"(In Lithuania) you have to pay like 200 Euro and then they may take a month to give you the green light. In Estonia it is free and in maximum it will take 10 days to give you the green light"* (Unna). So, Startup Estonia reacts very quickly to the application for the startup visa and the process to get the green light seems to be very quick. Nevertheless, during the actual process to come to Estonia the founders may face bureaucratic problems.

Entering Estonia also seems to be a lower risk and cost alternative to other more developed countries. The initial investment requirements are not high, compared to, e.g. the investment requirements of 25 000 Euro in Germany (Tom). Putting this amount into a new startup idea is viewed as very risky: *"Obviously business is about money, but at the beginning when you are not sure what you can do, what you cannot do, just to put 25 000 Euro into a foreign company is a little risky"* (Tom). In addition, having an image of a low cost country is great to attract the

programmer community to Estonia: *"If they perceive that this place is not expensive and I also do not need to show a lot of funds in my bank, so you can attract programmers"* (Darius). So in the end, Estonia is attractive because it is able to give the image of easy and quick entry regulations that can be dealt with online and which do not require a high investment to get the visa.

Bureaucratic problems

Nevertheless, even though Estonia was advertised to be very effortless, surprisingly many founders had administrative problems with getting the startup visa, registering the company and dealing with banking regulations. These problems were unexpected but the Startup Estonia programme was nevertheless very helpful to solve these problems: *"there was a huge delay (...) and I went there and my card was ready. So I was amazed for that help*" (Vesper).

Many actually faced difficulties to receive their visa and to register the company, and the process often took longer than expected (e.g. Unna, Vesper, Martin, Xavier in Table 11, p.76). For instance, Xavier had already received the startup approval but when he went to the embassy to get the visa they replied: "*You are miscommunicated and if somebody approved your request over the internet, it is probably fake. That was the official response from the embassy of Estonia"* (Xavier). Also Vesper became upset that he needed to get an e-residency card for 100 to 200 Euro in order to register his business, even though he didn't really need one. "*So for people who do not have a European visa, it will be good for them. People who are already here, it does not make sense that you need an e-residency. (...) So it took 4-5 months for me (...), initially I thought it would be a 1-month process"* (Vesper).

In addition, founders also experienced difficulties in opening a bank account in Estonia because of the banking regulation to meet their customers in person. *"Estonia may have the ease of the business, but they have (..) difficulties that they need to overcome now. That is actually killing their e-residency programme (...) the banks are closing the accounts for e-residency companies. Because they are told by the banking authorities to meet their customers face to face, it's their policy. (...) The point of e-residency is that you can run your business remotely, which is useless if the bank wants to (meet in person)"* (Xavier). Thus, Xavier wished for more alignment between the banking regulations and those of the startup programme so that the e-residency would make sense. *"Actually the government should convince the banks to trust their verification systems"* (Xavier).

For founders at the moment: *"It's unbelievable as it sounds that (the bank account) is a major issue. To open a bank account for a non-Estonian citizen is difficult and one day you might not know if your bank account would be shut down"* (Unna). This is especially problematic as e-residents rely on having an Estonian bank account in order to keep operations going. Because of these difficulties, Unna had even considered changing the location. *"I gave myself a timeline to get even the residence permit and a bank account. And I even told the Estonian colleagues that if you can't get me your residence permit by the end of November (...) different country. (..) the next day they approved my permit"* (Unna). Meanwhile also Darius finds it difficult to get appointments with notaries in Estonia, which he would like to meet to become more aware of regulative differences between Estonia and his home country as well as to get help with registering a company. These administrative hurdles create uncertainty and increase the transaction costs for founders, which is frustrating especially since they expected Estonia to be very digital and easy.

5.2.3 Outsourcing

Outsourcing seems to be a popular alternative used by foreign founders to reduce transaction costs of certain actions in the new environment. The findings in Table 12 display how outsourcing helps to overcome the need to hire personnel such as for accounting, human resources and dealing with administration, while also helping with language and regulatory issues.

Table 12. Findings on outsourcing

Common motif	Outsourcing
Vesper	He outsourced accounting so he wouldn't need to hire personnel
Martin	They hire a service to help with administrative tasks (tax, government, incorporation) for speed reasons and help with language
Anapa	He can use Jobbatical or business schools to find programmers in EST
Darius	He tries to get appointment with notary to find out about regulatory differences, but can't get easy appointment and feels some uncertainty

As it is experienced to be challenging to find personnel in Estonia, either due to time constraints or lacking knowledge about the new environment, these foreign founders prefer to outsource certain tasks to service providers so as to save their time and reduce the need for additional

personnel. For instance, Vesper has had difficulties hiring employees, so he just: *"outsource(d) accounting and those things to a small company. So again, there is no reason to hire. You want to be lean initially"* (Vesper). Even if founders are looking to hire new employees, they are willing to use service providers. *"Jobbatical is an Estonian startup and I think that I can use that to get qualified developers for my project"* (Anapa). To Anapa this also gives certainty that he is able to access the resources that he needs.

Outsourcing also helps to overcome regulatory and language issues in the country and make the startup process quicker and more efficient. "*We have a company which helps us to deal with documents, which also helped us with incorporation. Most of the time we have stuff in English. That's a great thing. But sometimes it might be only in Estonian. One of the hardest things was to open a bank account, it was quite unexpected for us. (…) Without company history, nobody wanted to give us this account. (..) At that time, only with help of this company we got our bank account*" (Martin). This demonstrates that outsourcing is a means to make incorporation more efficient but also to reduce institutional distance between the home and host location. Nevertheless, Martin would also use this kind of service in his home location: *"I think we would use it because we value our time"* (Martin). In general, founders feel certainty that these services are available to them and that they are beneficial for their business. Thus, outsourcing is convenient, gives certainty and reduces transaction costs of actions such as hiring additional personnel, dealing with a language barrier and doing administrative tasks.

5.2.4 Startup visa programme

The startup visa programme in itself also impacts the image and conduciveness of a location. Summarized comments of this can be seen as financial and social considerations in Table 13. These show how the startup programme and its image can be more important than other considerations such as the infrastructure in a location (Tom).

Table 13. Findings on startup visa programme

Common motif	Financial considerations	Social considerations
Vesper	In US, VCs would cost more	EU also provides more help and energy
Tom	Higher investment requirements elsewhere. These would be attractive environments, but too costly. Borders need to be open, so resources can come	
Unna		Relocated to better fit program, even though EST had better ecosystem and cheaper costs
Darius	Attracting talent as American money will follow automatically	

Financial considerations

Getting a startup visa is beneficial for founders as it comes as a cheaper alternative than traditional business immigrant visas, or of involving a VC. For Vesper and Tom this has resulted in a choice between a location with a startup visa, or other environments with other benefits. Both have now chosen the startup visa programme.

For Vesper, the US would be cheaper and otherwise be more suitable too, but they do not have such a programme. This forces him to involve a VC or accelerator, which comes at a greater cost. *"The New York state has a startup program, but it is on the papers. When you go over there you cannot even figure out who the programme manager is or whom you should talk to get some guidance. Absolutely nothing over there. (...) Everything is run through the VCs. Or go to some incubators and they will just start changing you from day one"* (Vesper). Tom was looking at locations with better infrastructure and resources such as Canada and Germany, but these often come with higher investment requirements. When Tom was explaining about the 25 000 Euro investment requirement in Germany he said: *"I wanted to go for these countries because they are more developed than Estonia (...) but then they would have come at a bigger cost also"* (Tom). Thus, Estonia benefits from having such a startup visa programme, because it promotes the attractiveness of a location, by appealing to the financial rationale of founders.

Social considerations

Even though costs are important for the founder, also social aspects on the startup programme are considered*: "Even though the US is far cheaper in terms of living, but when you are in the startup mode, the amount of help and energy you can get in Europe right now, I have not seen in the US"*

(Vesper). In this sense, the startup visa programme provides additional social support that is also important for founders.

Nevertheless, the image that the startup programme portrays can be important to keep founders in Estonia. For instance, Unna has looked further for similar programmes in the Nordics (i.e. Norway), which he finds would be more suitable to his startup idea. For him, who is already finalizing his business model, the programme support elsewhere and the funding potential, is actually more important that the better startup ecosystem and costs in Estonia. *"I feel that it (programme Norway) was a good fit for us. They were looking at impact startups (positive impact on society/environment), not regular startups. (… It's to) finalise your business model and at the end of it, you could probably get more investment and then they connect you to mentors and you get banking partners. Startup Estonia is just for the immigration purpose"* (Unna). This was even more important than the better ecosystem: *"But if we exclude the programme and funding, then Estonia would have been a better choice. (… Startup ecosystem) in Estonia is very developed, compared to Oslo. I was very surprised"* (Unna).

To summarize, besides the financial benefits, the social support of the startup visa is also important to attract founders to a location. Nevertheless, the image of such a startup programme and further support possibilities, i.e. mentors, funding were imperative in Unna's decision to relocate his startup to Norway.

6. DISCUSSION

The discussion of findings comprises two sections. The focus of the first section is on the location choice within the entrepreneurship process of foreign founders. It first describes how the location choice is an important element in this process and how it affects the opportunity exploitation and resource acquisition phases. These insights are compiled in Figure 9 (p.89), in which adjustments to the theoretical framework (Figure 3, p.36) are made. The foreign founder's location choice is also introduced as an iterative concern during the entrepreneurship process. The second section discusses how founders overcome the transaction costs of locating to Estonia, mainly by being able to profit from its digital ecosystem. The digital ecosystem helps to reduce the adjustments costs of locating to a foreign location and mitigates the institutional distance that the founders perceive when venturing abroad.

6.1 Entrepreneurship process for foreign founders

The typical entrepreneurship process for an entrepreneur is to become aware of an entrepreneurial opportunity, make the decision to exploit this opportunity, acquire the necessary resources and then become involved in the organizing and strategizing for the creation of a new venture (Figure 1, p.28). The foreign founder has an additional step, in which he makes a location choice as to where to exploit the entrepreneurial opportunity. All research participants first discovered a business opportunity and then searched for a suitable ecosystem to exploit this opportunity. This is aligned with theory as according to Efendic (2016) a foreign founder first discovers a business opportunity, after which he decides to migrate to pursue the opportunity in a favourable business environment.

A location choice is thus made before the opportunity exploitation phase, confirming that founders are making a location choice as can be seen in the theoretical framework (Figure 3, p.36). According to Efendic (2016), resource and visa accessibility are then the determinants that would influence the founder's location choice even before the migratory phase of going to the new location. The easy access to a visa and favourable entry regulations are found to be important to attract foreign founders to Estonia, especially when it comes to getting a visa quickly and easily online with low investment requirements. Nevertheless, the direct access to resources cannot be confirmed in the research findings. When founders come to Estonia, they are mostly concerned with their ability to exploit an opportunity and are less concerned with future resource acquisition.

When it comes to the acquisition of human resources, some founders are either coming to Estonia with a team or alone, but all are concerned with hiring further employees only after the initial product development. Similarly for financial resources, founders are living off their savings and are thinking to raise investment only after the initial prototype is built (except Martin).

Resource acquisition is thus not an immediate need for founders, but they still experience uncertainty if they can find the necessary talent in Estonia, while also realizing that they need to look internationally for funding. In their eyes, Estonia displays resource parsimony in human resources as well as for financial resources. These views are also backed by macro-level reports on the entrepreneurship dynamics in Estonia, which show that entrepreneurial finance (Figure 6, p.52), availability of risk capital and human capital (Figure 7, p.53) as well as getting credit (Figure 8, p.54) is not what Estonia ranks best in. This highlights the question, that for what particular purpose founders have come to Estonia, or if they are only profiting from convenient visa regulations?

The theoretical framework (Figure 3, p.36) proposes resource development, transaction costs and transaction cost efficiency as well as the institutional environment as factors that need to be considered in the location choice of foreign founders. However, these factors are not just affecting the location choice before the migratory phase, but rather the entire entrepreneurship process, especially the opportunity exploitation and resource acquisition phases. Instead of making one strategic location choice and evaluating the location choice as a one-time decision, these founders approached the location concept with more flexibility, to the extent that some proclaim themselves as location agnostic. As these founders have decided to come to Estonia, they nevertheless reflect on how this location choice affects their opportunity exploitation and resource acquisition phases of the entrepreneurship process.

6.1.1 Opportunity exploitation phase: Bundling INVs to Estonia's digital ecosystem

The opportunity exploitation phase is characterized by individual and demographic circumstances which support the founder to exploit an entrepreneurial opportunity (Shane, 2003). In this sense, the focus is on how Estonia's institutional environment enables the structural conditions (Stenholm, Ács and Wuebker, 2013) for foreign founders to establish and build their INVs in Estonia. The analysis of the interviews shows that Estonia as a startup ecosystem is recognized to be particularly well suited for the establishment and product development of a foreign founder's

startup. This is impacted by the digital startup ecosystem, as Estonia is actually the first country to offer a transnational digital identity to entrepreneurs (Kotka, Vargas and Korjus, 2015).

These founders, with their limited knowledge-based ownership advantages (Cavusgil and Knight, 2015), are looking for locational advantages in Estonia with which they could develop sufficient ownership advantages to be competitive (Dunning, 2000). In this case, the *natural* locational advantage (Dunning, 2000) is the digital startup ecosystem that is available for all in Estonia (Dunning, 1980). With the e-residency, founders have easy access to this digital ecosystem (Hennart, 2009) and also possess the necessary absorptive capacities, i.e. technological savviness (Cohen and Levinthal, 1990) to be able to benefit from this locational advantage. Thus, the digital startup ecosystem is Estonia's locational advantage that founders can profit from to do their product development in the aspiration to create ownership advantages (Dunning, 2009).

These founders have chosen to use the Estonian startup ecosystem for their product development, because it enables them to bypass home constraints, or then it results in speed and quality enhancements for their product development. The ecosystem is viewed as very efficient, because administrative tasks can all be done digitally and the ecosystem is otherwise also experienced as very "smooth". This means that founders can actually focus on building the product and do not need to deal with administrative issues. So, the bundling that is happening for founders is the use of the digital ecosystem to make a more efficient product development of their entrepreneurial idea. This does not mean that founders can only build their product in the startup ecosystem of Estonia and that the ownership advantages that they build are necessarily institutions-based (Dunning and Lundan, 2008), as founders have mostly identified their product-building as location agnostic. Yet, it is their preference to do so in Estonia because of the perceived speed, ease and efficiency.

Reflecting the foreign founder's needs for product development from the perspective of institutional conduciveness, the aspects that arose as most significant from Figure 1 (p.28) are favourable entry regulations (Efendic, 2016) and entrepreneurship programmes (Shane, 2003), which facilitate entry but also provide social support in the opportunity exploitation phase. The digital ecosystem is not included in Figure 1 of the literature review (p.28), which means that further research is necessary to see how a digital ecosystem makes a location institutionally conducive for founders.

To summarize, when assessing a location for the exploitation of an entrepreneurial opportunity, the founder is concerned with his ability to access locational advantages and his propensity to develop ownership advantages in the location (Dunning, 2009). He discovers Estonia, which has favourable visa regulations (Efendic, 2016) and a digital startup ecosystem, that is easy to access (Hennart, 2009) and connect with (Cohen and Levinthal, 1990). Bundling the INV to the Estonian digital startup ecosystem allows the founder to bypass home constraints as well as profit from speed and quality enhancements in the product development phase. A main element is the digital advantage that Estonia proposes, which makes the location institutionally conducive by affecting the perceived ease and efficiency that founders are able to benefit from in the opportunity exploitation phase.

6.1.2 Resource acquisition phase: Rapid internationalization

Resource acquisition is an important consideration for a foreign founder (Efendic, 2016). Founders in Estonia are pushed to look for resources internationally, for which they can profit from their ability to hire non-EU nationals and the digital identity. These are locational advantages in Estonia that support the rapid internationalization of INVs such as the creation of international teams or hub operations.

These founders have realized that they might not be able to find the necessary human and financial resources in Estonia, potentially due to smaller resource pools available (Ács, Szerb and Lloyd, 2017; Singer, Herrington and Menipaz, 2018; World Bank Group, 2018). Nevertheless, for getting suitable human or financial resources, these founders are actually flexible to look outside Estonia for necessary resources. For this, Estonia provides supportive conditions. Startup Estonia provides a special arrangement that enables founders to hire talent from around the world, which provides founders with an unrestricted worldwide talent search and the opportunity to make unique and international teams. Thus, a locational advantage (Dunning, 2000) that Estonia provides is the ability to hire talent worldwide. According to the programme homepage, this is a preferential condition compared to other startup visas in other countries (Startup Estonia, 2017). Moreover, founders experience it like they themselves can issue their future non-EU employees a visa. This finding raises questions for further research. Is this hiring ability of founders unique in Estonia and how will it affect immigration policies in the country? Are founders expected to know better or in a different way what talent is needed in a country than the labour shortage lists that influence

immigration policies (Sumption, 2011)? What misuses will this ability enable? Nevertheless, this hiring ability differentiates Estonia's startup visa from other startup visas and provides a locational advantage that founders can benefit from.

INVs are said to bundle efficiently resources from different markets, giving them their competitive edge (Oviatt and McDougall, 1994). The resource parsimony in Estonia and the support founders get to search for resources internationally, encourage foreign founders in their rapid internationalization (Weerawardena, et al., 2007). In theory, rapid internationalization of foreign founders is said to keep their technological skills cutting-edge (Zahra and Bogner, 2000; Zahra, Matherne and Carleton, 2003) as well as to provide access to new resources (Freeman, Hutchings and Chetty, 2012). However, in this research it seems that INVs do not just want access to new resources (Freeman, Hutchings and Chetty, 2012), but actually need to go international in order to get access to resources. It could be that resources are not plentiful for INVs and that internationalization for them is a coping mechanism to be able to collect and bundle resources to establish operations.

These founders do not just collect resources internationally, but also have operations in multiple countries. Founders have identified that especially for design and R&D activities it is good to keep operations in Estonia, due to Estonia's particular knowledge and capabilities in design and digital. This is also indirectly supported by Estonia's very high technological absorption in the Global Entrepreneurship Development Institute ranking (Figure 7, p.53), which shows how quickly new technologies are absorbed in Estonia and its ecosystem. But other activities such as the search for funding must be done elsewhere.

Startup Estonia thus encourages founders to go international and engage in international operations which are here called *hub operations.* This *hub* has also been identified by Efendic (2016) while researching another startup visa programme in Denmark. The: *"Danish company becomes a hub for the global expansion, while the company in the home country would serve as a support company"* (Efendic, 2016). In Estonia, the creation of hub operations is supported by the ability to keep a digital identity in Estonia while being physically anywhere else. In this way, founders can work, search for resources, or create new operations somewhere else, while keeping their company in Estonia. This digital identity is even seen as a national commodity, which offers a global extensible and open transnational space for entrepreneurs (Tammpuu and Masso, 2018).

The digital identity is therefore a locational advantage of Estonia, through which founders can be involved in the hub operations and the creation of global networks.

The location-bound *created* assets (Dunning, 2000), which the INV develops by bundling its own resources to those of the location, are thus the hubs and global networks that founders have to create to get access to international resources. The question arose in the thesis, that if certain hubs or international operations are established, then what will be the hub or centre for these operations? For this kind of hub location, founders are of the opinion that Estonia provides good base conditions, such as its "cheap" costs and "easy" digital infrastructure, which encourage them to keep operations in Estonia. For instance, Unna relocated to Norway because he found funding and a better startup programme there. Nevertheless he also keeps operations in Estonia, while the HQ "on paper" is in Norway. The bureaucratic HQ needed to be relocated to the country where the investment is received. Also, Xavier found out that if he accepts an investment from a VC in the Netherlands, the HQ of the INV would need to be relocated. Further research needs to be conducted to see what kind of base conditions are necessary for this kind of hub location and to see how the location of investors influences the HQ of INVs.

6.1.3 Entrepreneurship process for foreign founders

This subsection discussed how foreign founders experience the location choice in their entrepreneurship process. Detailed descriptions with connections to relevant theory were included for the opportunity exploitation and resource acquisition phases in the previous subsections. The thus emergent entrepreneurship process for these foreign founders can be seen in Figure 7. The entrepreneurship process for foreign founders is different from the typical entrepreneurship process (Figure 1, p.28) and that of immigrant founders (Figure 2, p.32), mostly due to the influence that the location choice has on the entire entrepreneurship process for the foreign founder. It is also different than the entrepreneurship process in the theoretical framework (Figure 7), as the location choice is not a one-time consideration before the opportunity exploitation phase, but actually influences the entrepreneurship phases even after the initial location choice is made.

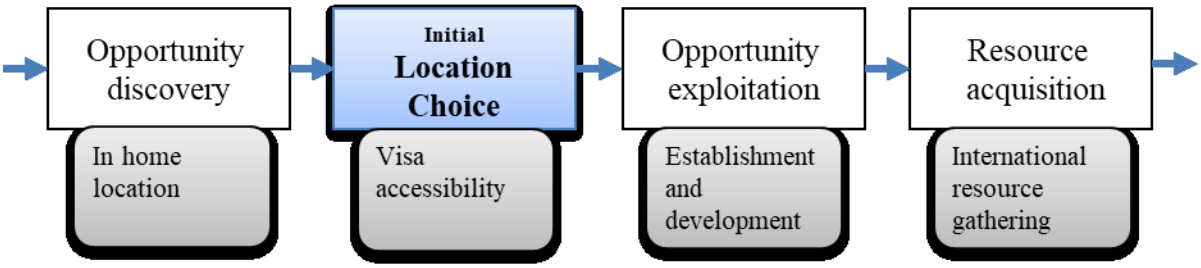

Figure 9. Location considerations in the entrepreneurship process of foreign founders

As assumed in the research objectives, it cannot really be said that a more strategic internationalization process is followed in the entrepreneurship process (Jantunen, et al., 2008), one in which access to resources and learning opportunities would be secured when making the location choice (Efendic, 2016). For these foreign founders, the location choice in the entrepreneurship process seems more flexible, than what a strategic approach would necessitate. The location choice was made for visa considerations, but also to find a good environment to establish and develop the startup idea. Founders also do not really display a strong preference for the country, or an urge to stay, but rather want to have a location that fulfils its purpose. *"It has only one potential. That make you do your business more efficiently (...) It's for the business. There's nothing personal about living in Estonia"* (Xavier). In this sense, the location choice is not that different from other entrepreneurs that have small consideration sets, demonstrate satisficing behaviour and discover location by change and not systematically (Berg, 2014). Foreign founders maybe however have a different learning approach and entrepreneurship orientation that supports their internationalization success (Jantunen, et al., 2008), but in this thesis, answers to this have not been found.

However, the aspect that is most astonishing in the foreign founder's entrepreneurship process is that foreign founders search for a location for something as transient as establishing and developing a product. The foreign founder makes one location choice and afterwards he might make a new location choice, e.g. when having to search for resources, as in fact some of these founders already have. For the Estonian location, we do not know if they look internationally for resources because they have to, due to Estonia's resource parsimony, or because they want to, i.e. strategic internationalization (Jantunen, et al., 2008). Nevertheless, the location choice in the process seems more insignificant and transient than what was assumed in the beginning of the research. To see how foreign founders can take such an easy approach to the location choice, it is

discussed if it is some inherent capability of INVs, or rather some locational advantages in Estonia that permit this circumstance.

6.2 Overcoming the transaction costs of locating to Estonia

Locating to a foreign market with a different institutional environment leads to transaction costs to emerge (Williamson, 1979). These transaction costs can be understood as the additional efforts a foreign firm needs to make due to the need to adjust to new customs and norms (Johanson and Vahlne, 2009). The research findings show that foreign founders find locating to Estonia attractive, because Estonia as a location is perceived to be easy, fast and cheap, greatly because of the digital infrastructure and lower cost of living compared to other European countries. This means that in Estonia founders are able to enjoy what they perceive as lower transaction costs. Thus, the question arises if the transaction costs are low because of some inherent capabilities of INVs, such as accelerated internationalization skills (Weerawardena, et al., 2007), or because the locational advantages make it so.

According to theory, INVs have strong international entrepreneurial orientation, unique and differentiated offerings, effective network-building tactics, dynamic learning capabilities and a strong focus on innovation (Cavusgil and Knight, 2015), which is supportive of their internationalization efforts (Knight and Cavusgil, 2004). Besides their capabilities, also mediating factors such as prior international experience, networks and incubators can help in reducing outsidership and adjustment cost when entering a new location (Johanson and Vahlne, 2009). Even though all of the foreign founders had some form of international experience, the research findings which were delivered with this research questionnaire (Appendix 1, p.109), did not determine if founders have international capabilities that would help to reduce transaction costs of locating to Estonia. When asking founders about their particular capabilities, they were not really aware of these. This means that either a different research approach is necessary to determine with which capabilities founders are able to overcome these transaction costs, or Estonia provides such locational advantages that it is easier for founders to overcome transaction costs even without some unique inherent capabilities.

It was indeed found that it is mostly factors of institutional conduciveness that make the experienced transaction costs low. This is especially the case because of the digital identity and the e-residency that Estonia offers. In fact, by having the e-residency, the founder can have a

company in Estonia without actually locating there. For instance, the founder can stay at the home location and thereby avoid the adjustment costs to enter the foreign location (Johanson and Vahlne, 2009). It is because of the digital aspect that founders do not really perceive the transaction cost of the adjustment, especially if founders are only working on their product development, without really "being" in Estonia.

It was very surprising in the research, that founders did not perceive greater institutional distance (Kostova, 1999) or a liability of foreignness (Zaheer, 1995). In theory, institutional distance has a great impact on the location choice, as choosing an institutionally similar location greatly reduces transaction costs, as is supported by the Uppsala internationalization approach (Johanson and Vahlne, 1977). However, for these foreign founders, institutional distance and the liability of foreignness were nearly irrelevant, except for the limited access to funding opportunities in Estonia that a founder experienced because of his ethnic background. The digital infrastructure and identity are thus locational advantages that mitigate the perceived transaction costs for the founders, perhaps by shielding them from experiencing the institutional distance of doing administrative tasks personally in Estonia or to be forced to familiarize themselves with the local customs.

Indeed, according to Tammpuu and Masso (2018) an imagined socio-cultural distance is kept between e-residents and the local population which aids to digitally internationalise Estonia while keeping the national space intact. This is somewhat different for foreign founders, because they are not just e-residents, but also actual residents in Estonia. Nevertheless, they can profit from Estonia's digital ecosystem that reduces their need to overcome the institutional distance. Certainly, this will change if the founder aims to stay longer in Estonia and especially if not everything can be done online.

Another mechanism that was found in the data analysis that reduces transaction costs is outsourcing. Many founders used the possibility to outsource certain firm activities to external service providers in order to avoid hiring additional personnel, dealing with a language barrier or doing administrative tasks. These can be seen as sources of transaction costs for the founder that can be easily outsourced to services, as the INV has low inducement to internalize them (Dunning, 1980). The impact of outsourcing on firm performance and its economic benefits (Thouin, Hoffman, Ford, 2009) are well known. However, digital services have also been identified as

important in the creation of smart cities and encouraging digital workplace culture (Vallicelli, 2018).

Contrary to what was assumed based on the literature review, foreign founders did not seem to overcome transaction costs through their accelerated internationalization skills (Weerawardena, et al., 2007), nor by choosing an institutionally similar location (Lopez, Kundu and Ciravegna, 2009), in which institutional distance would be reduced. The mitigation of transaction costs was actually established through locational advantages such as the digital identity and outsourcing possibilities. With Estonia's locational advantages, especially the digital identity, Estonia is able to create a very attractive offering for the foreign founders, in which the threshold to try out the startup in Estonia is very low. The startup visa is actually only valid for either 3 or 12 months (R. Riistop, personal communication, October 18, 2017)., after which the founder is able to apply for the residence permit. Thus, this 3- or 12-month period can be seen as a trial period, in which the startup can be physically anywhere, but the founder can nevertheless benefit from Estonia's startup ecosystem to create a startup.

7. CONCLUSION

Today, startup visas are becoming increasingly popular worldwide to attract promising but resource-limited startups to a specific location. It is a new channel of immigration to offer a limited visa to high potential startups. In this sense, can a country consider startup visas as: *"a passport for innovation and growth"* (Patuzzi, 2019)? Everybody wants to host the next startup success story, making it imperative to understand how founders of these startups make their location choices. In this race for talent, it also helps to understand why founders would chose the Estonian startup visa as opposed to other alternatives. In light of this necessity, this chapter summarizes the main findings of this thesis on the location choice of foreign founders and Estonia's locational advantages. It also gives practical managerial and policy implications and closes off with suggestions for further research.

6.1 Main findings and theoretical contributions

This master's thesis provides two main findings with theoretical implications. First, the existence and addition of a location choice into the entrepreneurship process of a foreign founder. Second, the impact of a digital identity on the perception of institutional distance when establishing a business in a foreign location. These findings are summarized here.

A main finding of this master's thesis is the realization that the location choice is indeed an important element in the foreign founder's entrepreneurship process (Shane, 2003). A foreign founder discovers an entrepreneurial opportunity after which he searches for a favourable business environment in which to establish and develop the entrepreneurial idea (Efendic, 2016). Thus, the choice of a location is an integral part of the founder's ability to develop international resource-bundles, which are a source of competitiveness for INVs (Oviatt and McDougall, 1994).

The first location choice is accordingly made after the opportunity discovery phase. Nevertheless, in this study founders displayed a flexible approach towards the concept of location, in which founders are ready to change the location as they progress in the entrepreneurship process. This was especially observed when it came to getting access to financial and human resources, which pushed founders towards accelerated internationalization (Weerawardena, et al., 2007). The location choice is thus an iterative concern for the foreign founder and opens possibilities for him to amass resources internationally, build global networks and establish international hub operations. The foreign founder's iterative approach towards the location choice and the role the

location choice has on the foreign founder's entrepreneurship process may be considered as theoretical contributions of this thesis.

Another interesting finding that this thesis contributes is awareness about the influence of the digital startup ecosystem on the perceived institutional distance (Kostova, 1999) and transaction costs (Williamson, 1979) when locating to a foreign environment. Founders recognize that the digital ecosystem makes Estonia conducive for the exploitation of an entrepreneurial idea, as the digital identity and the e-residency allow founders to establish and run the business digitally while being physically anywhere in the world. This enables founders to avoid some of the adjustment costs of entering a foreign location (Johanson and Vahlne, 2009), thereby lowering the threshold to establish a business in Estonia. In terms of institutions (Scott, 2008), the impact of the digital identity on the creation of a transnational space for global entrepreneurship (Tammpuu and Masso, 2018) gives inclinations to observe how this transnational space possibly destroys institutional distance on a global level, while nevertheless increasing the necessity to create new digital "rules of the game" for entrepreneurship (Scott, 2001).

6.2 Practical implications

The practical implications crystallise the best practices of this thesis for managers and policymakers. The managerial implications are intended for the foreign founders of Startup Estonia. A goal is to facilitate their understanding of location choice within the entrepreneurship process as well as to give inducements for internationalization aspirations. The policy implications are for Startup Estonia and relevant regulatory bodies of the Estonian government. The goal is to aid policymakers understand what makes Estonia valuable from the perspective of foreign founders and identify some of the critical challenges that need to be addresses to keep Estonia attractive for foreign founders.

6.2.1 Managerial implications

The foreign founders often see themselves as location agnostic, in which the location of the startup is irrelevant. However, it is important for founders to realize that a location also provides them with an ecosystem, access to resources and learning opportunities. A suitable location thus facilitates the new venture creation process, as it decreases the effort to collect all the necessary pieces to create a competitive advantage for the startup. In consequence, a main concern for the foreign founder should be to find a location, in which it is easy to create a match between the

startup idea, the ecosystem and in which access to new resources and learning opportunities is supported.

The uniqueness for foreign founders is however, that they can consider changing the location as the needs for their startup progress. In the beginning, it might be important to search for a location with easy establishment and that provides access to basic infrastructure, such as digital tools and office space. Here, focus should be on the easy accessibility to the necessary infrastructure and an effortless entry, meaning little bureaucratic hassles with immigration, setting up the business and getting a bank account. Later on, when the startup is expanding, the access to financial, human, learning and reputational resources becomes more important.

The foreign founder can thus re-evaluate if the first location still corresponds to the new needs of the startup and if access to new resources can be secured in the present location. Alternatively, a combination of locations is possible, in which case some of the operations are kept in one location and others, e.g. resource-acquisition in another. A third alternative would be to relocate the startup to a location that has a better match with the current needs of the startup. A question a founder should periodically remind himself of is the purpose that a particular location serves for the development of the startup.

Creating international operations in multiple locations is challenging, but also rewarding to gain global networks and combine knowledge and ecosystem advantages from multiple locations. Such skills as strong international entrepreneurial orientation, unique and differentiated offerings, effective network-building, dynamic learning capabilities and a strong focus on innovation (Cavusgil and Knight, 2015) can enable founders to create these kinds of international operations. Moreover, global networks and startup incubators help founders to reduce outsidership and adjustment costs when operating in foreign locations (Johanson and Vahlne, 2009).

6.2.2 Policy implications

Estonia is attractive for foreign founders especially when they are searching for a place in which they can easily establish and develop their startup idea. But why is this? And once founders come to Estonia, will they also stay? The implications that are developed here for policymakers, highlight some of the locational advantages that Estonia possesses and by which Estonia can distinguish itself from other startup visa programmes worldwide. In addition, some of the

challenges that Startup Estonia and relevant regulatory bodies are facing are also identified and suggestions for improvement are provided.

In attracting founders to Estonia, the digital identity and the well-functioning digital infrastructure are noticed by founders. This digital ecosystem encourages founders to establish their operations in Estonia, as dealing with administration and bureaucracy is experienced as quicker, easier and more flexible than non-digital alternatives. The digital ecosystem is thus a locational advantage of Estonia. For founders, this digital alternative reduces the threshold to establish operations in Estonia, as the e-residency can be perceived as a *"2- or 3-day thing"* (Vesper) and being able to deal with bureaucracy online is less of a headache. This means that founders perceive Estonia as a possible try-out location, one which is "smooth" due to its digital ecosystem. For Startup Estonia this means that they can use their digital advantages and the thus more smooth and easy process to attract founders to Estonia. Highlighting especially the quick digital nature of bureaucracy is very powerful to convince time-pressured startup founders of Estonia, as they would prefer a quick and hassle-free process to establish a startup in a foreign country. However, this also means that Startup Estonia needs to carefully evaluate startup visa applicants and make sure that applicants have legitimate and realistic plans for their startup. As founders can easily apply and may consider Estonia as a try-out location, it is important to keep the quality of applicants and startups high, so that Estonia will keep up a good image to also attract future startups and investors.

The digital ecosystem and the targeted "smoothness" of the entrepreneurship process also provide Estonia with two identified opportunities. The first is to provide founders with clearer outsourcing options. Founders were very inclined to outsource certain parts of their operations, such as administration, Human Resources (HR) and accounting, to external services providers. This was experienced to speed up the startup process and make it more efficient. Startup Estonia could therefore offer pre-determined outsourcing options to startup founders, so that they would not need to search for service providers themselves. The second opportunity is that through the digital identity, Startup Estonia enables the creation of a transnational space for entrepreneurship (Tammpuu and Masso, 2018). This space is still emerging and at this point, Estonia can still take a very active role to shape the institutional actors and rules for this transnational space. This enables Estonia to specialise itself further, even presenting the digital identity globally as a national commodity (Tampuu and Masso, 2018).

Another locational advantage that founders in Estonia are able to enjoy is the ability to hire non-EU employees for the startup. This is a great advantage to create international teams and have unrestricted worldwide talent search. This aspect should be highlighted when advertising the startup visa to potential founders. In addition, trainings could be offered on how and through which channels international talent can be accessed. Access to talent in Estonia is limited, so founders could greatly benefit from support in accessing international talent. At the same time, Startup Estonia should remain mindful that this ability should not be misused by founders and also have control mechanisms in place that would track from which countries and sectors talent comes to Estonia. This will also provide interesting information that can be used to observe how this ability changes immigration policies as well as labour shortage and surplus lists.

While Estonia is currently able to attract foreign founders, it has certain challenges that it should address to continue being attractive for founders and to increase the likelihood that these founders also remain in Estonia. The first challenge is to make the startup process in Estonia smooth, as it is expected by founders. In this study many founders experienced problems in the establishment process, e.g. to get a bank account and permit in Estonia. These bureaucratic hurdles should be tackled and eliminated for founders, because the smoothness of establishment and running a business could become one of Estonia's great advantages, by virtue of the digital ecosystem. It is noteworthy, that those founders that first had an e-residency and afterwards got the startup visa and bank account had less problems with the process, than those who did not have this e-residency until only later. One founder even deplored that he felt obliged to get the e-residency in order to progress with his operations. This circumstance should be amended to provide more flexibility for founders, or at least provide better communication about the necessary process.

Another challenge is to keep founders in Estonia as they start searching for financial, learning and human resources internationally. Successful international new ventures are said to derive a source of competitive advantage from the effective combination of resources from multiple markets (Oviatt and McDougall, 1994). This means that they are inclined to internationalize rapidly if this gives them an edge in the competition for financial investment and valuable resources. Two specific circumstances were identified in the thesis that pose challenges to keep startups in Estonia. Firstly, if founders accept funding from VCs, these are said to necessitate that the registered place for the startup is in the country where funding is received. Another circumstance is that founders

join other accelerator programmes for reputational, financial or learning benefits. Estonia can either aim to create a complete ecosystem in which the founder can find all necessary resources for the activities of the entrepreneurship process in Estonia. Or then, Estonia specialises in a specific part of the venture creation process, such as the establishment and development of the startup. Meanwhile Startup Estonia could ensure that it offers something compelling to the founders so that they will keep part of their operations in Estonia, even if they go international to look for resources. This could be, e.g. the digital identity and digital infrastructure, which gives the founders a transnational space for entrepreneurship that is not bound to any specific location (Tammpuu and Masso, 2018).

To conclude, Estonia has occupied a great niche space in the entrepreneurship world with its digital ecosystem and enhanced ability to hire non-EU employees. This distinguishes Estonia's startup visa from other startup visa programmes worldwide. The challenges Estonia faces are to make the physical and digital entry into Estonia very smooth as well as to define and communicate clear rules for the entry process. Once startups see the need to internationalize themselves further and acquire more resources, Startup Estonia should actively support this process, but also create attractive local conditions so that founders want to consider Estonia as their home base.

6.3 Suggestions for further research

Certain suggestions for further research were already introduced in the discussion, but here four suggestions are recapped and a clear direction for continuation is given. First, it is identified in the thesis that the foreign founder's location choice is an iterative process during the entrepreneurship process. In this sense, it would be worthwhile to observe how this location choice evolves during the entrepreneurship process by hand of a longitudinal study. When are location choices made, e.g. just for the exploitation and resource acquisition phases, or also during other occurrences? How might this then change the entrepreneurship process for founders? And indeed if founders build international hub operations, then what locations do they chose for these and how are these connected. Network theory (Andersson and Forsgren, 2000) could provide valuable insights into how such hub operations are built and how they influence each other.

In a similar line, it would be interesting to study if founders are under specific constraints when making their location choice and who influences these constraints. In this thesis the idea emerged that investment of VCs necessitate the registration of a startup in the country where investment is

given. If this is true, then investors would have considerable influence on at least the base location of startups. Further research could analyse how these investment concerns influence the location choice and hub operations of founders.

Thirdly, the substantial influence of the digital aspect on the experienced institutional conduciveness of a location came as a surprise in the research. In this respect, it would be insightful to carry out more research on how a digital ecosystem really makes a location conducive for a startup. In addition, the emergent digital transnational space (Tammpuu and Masso, 2018) could be analysed from an institutional perspective (Scott, 2008) to understand the new rules that need to be created for this space and which actors are actively engaged in this process.

Lastly, the impact of startup visas on immigration matters is well observed, as just recently in July 2019 the Migration Policy Institute published a report (Patuzzi, 2019) on startup visas and their role in immigration systems. However, startup founders in Estonia can further issue visas for non-EU employees with quite much autonomy. Further research could investigate how this exactly works and how this special ability affects immigration policies as well as talent shortages and surpluses in Estonia.

8. REFERENCES

Ács, Z. J., Brooksbank, D. J., O'Gorman, C., Pickernell, D. and Terjesen, S., 2012. The knowledge spillover theory of entrepreneurship: An application to foreign direct investment. *International Journal of Entrepreneurship and Small Business*, 15(2), pp.237-261.

Ács, Z. J., Szerb, L. and Lloyd, A., 2017. *Global Entrepreneurship Index 2018.* (pdf) Global Entrepreneurship and Development Institute (GEDI). Available at: < http://thegedi.org/2018-global-entrepreneurship-index/> (Accessed 5 March 2018).

Alcácer, J. and Chung, W., 2007. Location strategies and knowledge spillovers. *Management Science*, 53(5), pp.760-776.

Audretsch, D. B. and Keilbach, M., 2007. The theory of knowledge spillover entrepreneurship. *Journal of Management Studies*, 44(7), pp.1242-1254.

Audretsch, D. B. and Keilbach, M., 2008. Resolving the knowledge paradox: Knowledge-spillover entrepreneurship and economic growth. *Research Policy*, 37(10), pp.1697-1705.

Anderson, E. and Gatignon, H., 1986. Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), pp.1-26.

Andersson, U. and Forsgren, M., 2000. In search of centre of excellence: Network embeddedness and subsidiary roles in multinational corporations. *Management International Review,* 40(4), pp.329-350.

Bailey, N., 2018. Exploring the relationship between institutional factors and FDI attractiveness: A meta-analytic review. *International Business Review*, 27(1), pp.139-148.

Baker, T., Gedajlovic, E. and Lubatkin, M., 2005. A framework for comparing entrepreneurship processes across nations. *Journal of International Business Studies*, 36(5), pp.492-504.

Barney, J., 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), pp.99-120.

Baumol, W. J., 1996. Entrepreneurship: Productive, unproductive, and destructive. *Journal of Business Venturing*, 11(1), pp.3-22.

Beggan, J. K., 1992. On the social nature of non-social perception: The mere ownership effect. *Journal of Personality and Social Psychology*, 62(2), pp.229-237.

Bell, J., 1995. The internationalization of small computer software firms: A further challenge to "stage" theories. *European Journal of Marketing*, 29(8), pp.60-75.

Berg, N., 2014. Success from satisficing and imitation: Entrepreneurs' location choice and implications of heuristics for local economic development. *Journal of Business Research*, 67(8), pp.1700-1709.

Berger, P. L. and Luckmann, T., 1991. *The social construction of reality: A treatise in the sociology of knowledge*. UK: Penguin.

Blanc-Brude, F., Cookson, G., Piesse, J. and Strange, R., 2014. The FDI location decision: Distance and the effects of spatial dependence. *International Business Review*, 23(4), pp.797-810.

Bruder, J., Neuberger, D. and Räthke-Döppner, S., 2011. Financial constraints of ethnic entrepreneurship: evidence from Germany. *International Journal of Entrepreneurial Behavior & Research*, 17(3), pp.296-313.

Buckley, P. and Casson, M., 1976. *The Future of the Multinational Enterprise*. London: Macmillan.

Buckley, P. and Ghauri, P. N., 2004. Globalisation, economic geography and the strategy of multinational enterprises. *Journal of International Business Studies*, 35(2), pp.81-98.

Business Finland, 2018. *Build your startup in Finland – Finnish Startup Permit kicks off*. (online) Available at: < https://www.businessfinland.fi/en/whats-new/news/2018/build-your-startup-in-finland---finnish-startup-permit-kicks-off/> (Accessed 7 October 2019).

Cavusgil, S. T. and Knight, G., 2015. The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization. *Journal of International Business Studies*, 46(1), pp.3-16.

Chetty, S. and Campbell-Hunt, C., 2004. A strategic approach to internationalization: a traditional versus a "born-global" approach. *Journal of International Marketing*, 12(1), pp.57-81.

Chrysostome, E. and Lin, X., 2010. Immigrant entrepreneurship: Scrutinizing a promising type of business venture. *Thunderbird International Business Review*, 52(2), pp.77-82.

Coeurderoy, R. and Murray, G., 2008. Regulatory environments and the location decision: Evidence from the early foreign market entries of new-technology-based firms. *Journal of International Business Studies*, 39(4), pp.670-687.

Cohen, W. M. and Levinthal, D. A., 1990. Absorptive capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, 35(1), pp.128-152.

Cooper, A. C., Gimeno-Gascon, F. J. and Woo, C. Y., 1994. Initial human and financial capital as predictors of new venture performance. *Journal of Business Venturing*, 9(5), pp.371-395.

Coviello, N. E., 2006. The network dynamics of international new ventures. *Journal of International Business Studies*, 37(5), pp.713-731.

Creswell, J. W., 1998. *Qualitative inquiry and research design: Choosing among five traditions*. Thousand Oaks (Calif.): Sage Publications.

Cuervo-Cazurra, A., 2006. Who cares about corruption?. *Journal of International Business Studies*, 37(6), pp.807-822.

Dahl, M. S. and Sorenson, O., 2009. The embedded entrepreneur. *European Management Review*, 6(3), pp.172-181.

Dahl, M. S. and Sorenson, O., 2012. Home sweet home: Entrepreneurs' location choices and the performance of their ventures. *Management Science*, 58(6), pp.1059-1071.

Demirbag, M., Tatoglu, E. and Glaister, K.W., 2010. Institutional and transaction cost determinants of Turkish MNEs' location choice. *International Marketing Review*, 27(3), pp. 272-294.

Denzin, N. K., 2012. Triangulation 2.0. *Journal of Mixed Methods Research*, 6(2), pp.80-88.

DiMaggio, P. and Powell, W. W., 1983. The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48(2), pp.147-160.

Djankov, S., Ganser, T., McLiesh, C., Ramalho, R. and Shleifer, A., 2010. The effect of corporate taxes on investment and entrepreneurship. *American Economic Journal: Macroeconomics*, 2(3), pp.31-64.

Du, J., Lu, Y. and Tao, Z., 2012. Institutions and FDI location choice: The role of cultural distances. *Journal of Asian Economics*, 23(3), pp.210-223.

Duanmu, J. L, 2014. A race to lower standards? Labor standards and location choice of outward FDI from the BRIC countries. *International Business Review*, 23(3), pp.620-634.

Dubois, A. and Gadde, L. E., 2002. Systematic combining: An abductive approach to case research. *Journal of Business Research*, 55, pp.553−560.

Dunning, J. H., 1980. Towards an eclectic theory of international production: some empirical tests. *Journal of International Business Studies*, 11(1), pp.9-31.

Dunning, J. H., 1995. Reappraising the eclectic paradigm in an age of alliance capitalism. *Journal of International Business Studies,* 26(3), pp.461-490.

Dunning, J. H., 1998. Location and the Multinational Enterprise: A Neglected Factor? *Journal of International Business Studies,* 29(1), pp.45-66.

Dunning, J. H., 2000. The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*, 9(2), pp.163-190.

Dunning, J. H. and Lundan, S. M., 2008. Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management, 25(*4), pp.573-593.

Dunning, J. H., 2009. Location and the multinational enterprise: a neglected factor?. *Journal of International Business Studies*, 40(1), pp.5-19.

e-estonia, 2019. e-*residency.* (online) Available at: <https://e-estonia.com/solutions/e-identity/e-residency/> (Accessed 7 October 2019)

Efendic N., 2016. *Expatriate Entrepreneurship: The role of accelerators in network formation and resource acquisition.* Ph. D. Stockholm School of Economics, Sweden.

Eriksson, P. and Kovalainen, A., 2008. *Qualitative Methods in Business Research*. London: Sage.

Faeth, I., 2009. Determinants of foreign direct investment–a tale of nine theoretical models. *Journal of Economic Surveys*, 23(1), pp.165-196.

FreeDictionary, 2019. *Hub definition.* (online) Available at: <https://www.thefreedictionary.com/hub> (Accessed 10 October 2019).

Freeman, S., Hutchings, K. and Chetty, S., 2012. Born-globals and culturally proximate markets. *Management International Review*, 52(3), pp.425-460.

Gaglio, C. M. and Katz, J. A., 2001. The psychological basis of opportunity identification: Entrepreneurial alertness. *Small Business Economics*, 16(2), pp.95-111.

Globerman, S. and Shapiro, D., 2003. Governance infrastructure and US foreign direct investment. *Journal of International Business Studies*, 34(1), pp.19-39.

Greve, A. and Salaff, J. W., 2003. Social networks and entrepreneurship. *Entrepreneurship Theory and Practice*, 28(1), pp.1-22.

Hayek, F. A., 1945. The use of knowledge in society. *The American Economic Review*, 35(4), pp. 519-530.

Hennart, J. F., 1991. The transaction cost theory of the multinational enterprise. In *The nature of the transnational firm*. London: Routledge.

Hennart, J., 2009. Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets. *Journal of International Business Studies*, 40(9), pp.1432-1454.

Hill, C. W. and Kim, W. C., 1988. Searching for a dynamic theory of the multinational enterprise: A transaction cost model. *Strategic Management Journal*, 9, pp.93-104.

Jantunen, A., Nummela, N., Puumalainen, K. and Saarenketo, S., 2008. Strategic orientations of born globals—Do they really matter?. *Journal of World Business*, 43(2), pp.158-170.

Javorcik, B. S., 2004. The composition of foreign direct investment and protection of intellectual property rights: Evidence from transition economies. *European Economic Review*, 48(1), pp.39-62.

Jensen, N. M., 2003. Democratic governance and multinational corporations: Political regimes and inflows of foreign direct investment. *International Organization*, 57(3), pp.587-616.

Johanson, J. and Vahlne, J. E., 1977. The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1), pp.23-32.

Johanson, J. and Vahlne, J. E., 2009. The Uppsala internationalization process model revisited: from liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40(9), pp.1411-1431.

Keuschnigg, C. and Nielsen, S. B., 2004. Taxation and venture capital backed entrepreneurship. *International Tax and Public Finance*, 11(4), pp.369-390.

Kim, J. U. and Aguilera, R. V., 2015. Foreign location choice: Review and extensions. *International Journal of Management Reviews*, 18(2), pp.133-159.

Kirzner, I., 1973. *Competition and entrepreneurship.* University of Chicago Press: Chicago.

Kloosterman, R., 2010. Matching opportunities with resources: A framework for analysing (migrant) entrepreneurship from a mixed embeddedness perspective. *Entrepreneurship and Regional Development*, 22(1), pp.25-45.

Kloosterman, R., Van Der Leun, J. and Rath, J., 1999. Mixed embeddedness: (In)formal economic activities and immigrant businesses in the Netherlands. *International Journal of Urban and Regional Research*, 23(2), pp.252-266.

Knight, G. A. and Cavusgil, S. T., 2004. Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 35(2), pp.124-141.

Knight, G. A. and Cavusgil, S. T., 2005. A taxonomy of born-global firms. *Management International Review*, 45(3), pp.15-35.

Kostova, T., 1999. Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24(2), 308-324.

Kostova, T., and Zaheer, S., 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1), pp.64-81.

Kostova, T. and Roth, K., 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), pp.215-233.

Kotka, T., Vargas, C. and Korjus, K., 2015. Estonian e-Residency: Redefining the Nation-State in the Digital Era. *University of Oxford Cyber Studies Programme. Working Paper Series – No.3. Available at:* <http://www.politics.ox.ac.uk/materials/publications/14883/workingpaperno3kotkavargaskorjus.pdf> (Accessed 7 October 2019)

Ley, D., 2003. Seeking Homo Economicus: The Canadian tate and the strange story of the business immigration program. *Annals of the Association of American Geographers*, 93(2), pp.426-441.

Li, J., Li, Y. and Shapiro, D., 2012. Knowledge seeking and outward FDI of emerging market firms: The moderating effect of inward FDI. *Global Strategy Journal*, 2(4), pp.277-295.

Linán, F. and Santos, F. J., 2007. Does social capital affect entrepreneurial intentions?. *International Advances in Economic Research*, 13(4), pp.443-453.

Lopez, L. E., Kundu, S. K. and Ciravegna, L. 2009. Born global or born regional? Evidence from an exploratory study in the Costa Rican software industry. *Journal of International Business Studies*, 40(7), pp.1228-1238.

Madsen, T. K. and Servais, P., 1997. The internationalization of born globals: an evolutionary process?. *International Business Review*, 6(6), pp.561-583.

Makoni, P. L., 2015. An extensive exploration of theories of foreign direct investment. *Risk Governance and Control: Financial markets and institutions*, 5(2), pp.77-84.

Manolova, T. S., Eunni, R. V. and Gyoshev, B. S., 2008. Institutional environments for entrepreneurship: Evidence from emerging economies in Eastern Europe. *Entrepreneurship Theory and Practice*, 32(1), pp.203-218.

Meyer, K. E., 2001. Institutions, transaction costs, and entry mode choice in Eastern Europe. *Journal of International Business Studies*, 32(2), pp.357-367.

Miles, M. B., Huberman, A. M. and Saldana, J., 2014. *Qualitative data analysis: A methods sourcebook*. 3rd ed. Los Angeles: Sage.

Nergi, A. M., 2018. Estonia's Startup Visa is a ticket to Europe's liveliest startup community. (online) *Invest in Estonia.* Available at <https://investinestonia.com/estonias-startup-visa-is-a-ticket-to-europes-liveliest-startup-community/> (Accessed 7 October 2019)

Nielsen, B. B., Asmussen, C. G. and Weatherall, C. D., 2017. The location choice of foreign direct investments: Empirical evidence and methodological challenges. *Journal of World Business*, 52(1), pp.62-82.

Nordman, E. R. and Melén, S., 2008. The impact of different kinds of knowledge for the internationalization process of born globals in the biotech business. *Journal of World Business*, 43(2), pp.171-185.

Nyström, K., 2008. The institutions of economic freedom and entrepreneurship: evidence from panel data. *Public Choice*, 136(3-4), pp.269-282.

Oviatt, B. and McDougall, P., 1994. Toward a Theory of International New Ventures. *Journal of International Business Studies,* 25(1), pp.45-64.

Pajunen, K., 2008. Institutions and inflows of foreign direct investment: A fuzzy-set analysis. *Journal of International Business Studies*, 39(4), pp.652-669.

Patton, M. Q., 1990. *Qualitative Evaluation and Research Methods (2nd ed.)*. Newbury Park: SAGE.

Patuzzi, L., 2019. Startup-up Visas: A Passport for Innovation and Growth? a passport for innovation and growth? (pdf) Migration Policy Institute. Available at: <https://www.migrationpolicy.org/research/start-visas-innovation-growth> (Accessed 7 October 2019)

Petersen, B., Pedersen, T. and Lyles, M. A., 2008. Closing knowledge gaps in foreign markets. *Journal of International Business Studies*, 39(7), pp.1097-1113.

Porter, M. E., 1990. *The Competitive Advantage of Nations*. London: Macmillan.

Prisco, G., 2014. Estonian e-Residency Program Launched. (online) *CCN Markets*. Available at: <https://www.ccn.com/estonian-e-residency-program-launched/> (Accessed 8 October 2019).

Rialp, A., Rialp, J. and Knight, G. A., 2005. The phenomenon of early internationalizing firms: what do we know after a decade (1993–2003) of scientific inquiry?. *International Business Review*, 14(2), pp.147-166.

Sapienza, H. J., Autio, E., George, G. and Zahra, S. A., 2006. A capabilities perspective on the effects of early internationalization on firm survival and growth. *Academy of Management Review*, 31(4), pp.914-933.

Schumpeter, J. A., Opie, R. and Elliott, J. E., 1983. *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. New Brunswick: Transaction Publishers.

Scott, W. R., 2001. *Institutions and organizations*. Thousand Oaks: Sage.

Scott, W. R., 2008. *Institutions and Organizations: Ideas and interests*. 3rd ed. Thousand Oaks: Sage.

Sexton, D. L. and Landström, H., 2000. *The Blackwell handbook of entrepreneurship*. Oxford: Blackwell.

Shane, S., 2003. *A general theory of entrepreneurship: The individual-opportunity nexus*. Cheltenham: Edward Elgar Publishing.

Shane, S., 2009. Why encouraging more people to become entrepreneurs is bad public policy. *Small Business Economics*, 33(2), pp.141-149.

Shane, S. and Venkataraman, S., 2000. The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), pp.217-226.

Sharma, D. D. and Blomstermo, A., 2003. The internationalization process of born globals: a network view. *International Business Review*, 12(6), pp.739-753.

Simon, H. A., 1955. A behavioral model of rational choice. *The Quarterly Journal of Economics*, 69(1), pp.99-118.

Simons, H., 2009. *Case study research in practice*. Los Angeles: SAGE.

Singer, S., Herrington M. and Menipaz, E., 2018. *Global Entrepreneurship Monitor Report 2017/18*. (pdf) The Global Entrepreneurship Research Association (GERA). Available at: <http://www.gemconsortium.org/report> (Accessed 5 March 2018).

Smale, W., 2015. The global fight to attract foreign entrepreneurs. (online) BBC News. Available at: <http://www.bbc.com/news/business-31602943> (Accessed 5 March 2018).

Sobel, R. S., 2008. Testing Baumol: Institutional quality and the productivity of entrepreneurship. *Journal of Business Venturing*, 23(6), pp.641-655.

Stake, R. E. 1995. *The Art of Case Study Research*. Thousand Oaks: SAGE.

Startup Estonia, 2017. *Estonia launches a new Startup Visa program for foreign startup employees and startups.* (online) Available at: <https://www.startupestonia.ee/blog/estonia-launches-a-new-startup-visa-program> (Accessed 7 October 2019).

Startup Estonia, 2019. *Eligibility.* (online) Available at: <https://www.startupestonia.ee/visa/eligibility-foreign-founder> (Accessed 8 October 2019).

Stenholm, P., Ács, Z. J. and Wuebker, R., 2013. Exploring country-level institutional arrangements on the rate and type of entrepreneurial activity. *Journal of Business Venturing*, 28(1), pp.176-193.

Sumption, M., 2011. Filling Labour Shortages through Immigration: An Overview of Shortage Lists and their Implications. (online) Migration Policy Institute. Available at: <https://www.migrationpolicy.org/article/filling-labor-shortages-through-immigration-overview-shortage-lists-and-their-implications/> (Accessed 9 October 2019).

Tammpuu, P., and Masso, A., 2018. 'Welcome to the virtual state': Estonian e-residency and the digitalised state as a commodity. *European Journal of Cultural Studies*, 21(5), pp.543-560.

Thouin, M. F., Hoffman, J. J. and Ford, E. W., 2009. IT outsourcing and firm-level performance: A transaction cost perspective. *Information & Management*, 46(8), pp.463-469.

Teece, D. J., 1986. Transactions cost economics and the multinational enterprise An Assessment. *Journal of Economic Behavior & Organization*, 7(1), pp.21-45.

Trevino, L. J., Thomas, D. E. and Cullen, J., 2008. The three pillars of institutional theory and FDI in Latin America: An institutionalization process. *International Business Review*, 17(1), pp.118-133.

Vallicelli, M., 2018. Smart cities and digital workplace culture in the global European context: Amsterdam, London and Paris. *City, Culture and Society*, 12, pp.25-34.

Vinogradov, E., and Elam, A., 2010) A process model of venture creation by immigrant entrepreneurs. *The life cycle of new ventures: Emergence, newness and growth*, (pp. 109-126). Cheltenham: Edward Elgar Publishing Limited.

Volchek, D., Efendic, N., and Terjesen, S., 2016. Expatriate Entrepreneurship: Start-up Visas and Incubators. *Frontiers of Entrepreneurship Research*, 36(14), pp.3-32.

Weerawardena, J., Mort, G. S., Liesch, P. W. and Knight, G., 2007. Conceptualizing accelerated internationalization in the born global firm: A dynamic capabilities perspective. *Journal of World Business*, 42(3), pp.294-306.

Williamson, O. E., 1979. Transaction-cost economics: the governance of contractual relations. *The Journal of Law and Economics*, 22(2), pp.233-261.

Williamson, O. E., 1996. *The mechanisms of governance*. New York: Oxford University Press.

Williamson, O. E., 1998. Transaction cost economics: how it works; where it is headed. *De economist*, 146(1), pp.23-58.

World Bank Group, 2018. *Doing Business 2018. Reforming to Create Jobs. Economy Profile Estonia*. (pdf) Available at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/e/estonia/EST.pdf> (Accessed 10 October 2019).

Worldometers, 2019. *Estonia Population.* (online). Available at: <https://www.worldometers.info/world-population/estonia-population/> (Accedded 12 October 2019).

Xu, D. and Shenkar, O., 2002. Institutional distance and the multinational enterprise. *Academy of Management review*, 27(4), pp.608-618.

Yin, R. K., 2009. *Case study research: Design and methods*. 4th ed. Thousand Oaks: Sage Publications.

Zaheer, S., 1995. Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), pp.341-363.

Zaheer, S. A., Lamin, A. and Subramani, M., 2009. Cluster capabilities or ethnic ties? Location choice by foreign and domestic entrants in the services offshoring industry in India. *Journal of International Business Studies*, 40(6), pp.944-968.

Zahra, S. A., and Bogner, W. C., 2000. Technology strategy and software new ventures' performance: Exploring the moderating effect of the competitive environment. *Journal of Business Venturing*, 15(2), pp.135-173.

Zahra, S. A., Matherne, B. P. and Carleton, J. M., 2003. Technological resource leveraging and the internationalisation of new ventures. *Journal of International Entrepreneurship*, 1(2), pp.163-186.

Zahra, S. A. and Nielsen, A. P., 2002. Sources of capabilities, integration and technology commercialization. *Strategic Management Journal*, 23(5), pp.377-398.

Zhang, J., 2004. Growing Silicon Valley on a landscape: an agent-based approach to high-tech industrial clusters. *Journal of Evolutionary Economics*, 13(5), pp.529-548.

Zhao, H., Luo, Y. and Suh, T., 2004. Transaction cost determinants and ownership-based entry mode choice: A meta-analytical review. *Journal of International Business Studies*, 35(6), pp.524-544.

9. APPENDICES

9.1 Appendix 1: Interview Guide

General questions

1. Could you tell us a bit about yourself? Where are you from, what is your educational background?
2. Please tell us about your business idea and how you founded the startup.
3. How did you hear about Startup Estonia?
4. What were your main reasons to come to Estonia?
5. When you considered locating to Estonia, what were your thoughts on the match between your business idea and Estonia?
    a. What aspects did you think that you could match well?
6. Did you have other potential countries? Please describe your short-list of locations.
    a. What was the ultimate factor that convinced you to come to Estonia?
7. Did you first consider the location (i.e. Estonia) for your business, or first have a business idea?
8. What is the main reason behind relocation to Estonia – is it more related to the business or private situation?
    a. What effect would relocation have on your business development?
9. Would you found your startup somewhere else if not for Startup Estonia? Where?

Questions on internal capabilities and resources

10. What are the unique assets and capabilities (*resources*) that you possess e.g. your key capabilities, specialized knowledge, quality of technology …?
    a. Were you able to *enhance* them in Estonia; how and with what?
        i. Did the potential to develop advantages influence your choice of location? How?
11. Do your capabilities and knowledge give you a competitive advantage compared to competitors in Estonia? In what sense?
12. Where is your target market?
13. What strategic goals will you have after relocating to Estonia?
14. What would be your main strategy for locating, so that you could position your resources profitably?
    a. *Protect advantages* e.g. locate to safeguard external knowledge leaks
    b. *Develop advantages* e.g. locate to develop capabilities, such as knowledge gains
    c. *Exploit advantages* e.g. locate where you profit from competitive advantage
    d. Regarding the one you picked; how would you do this?
15. How are you able to match your resources with those provided here in Estonia?
    a. Which Estonian resources do you utilize and profit from? How effectively?
16. In retrospective, are you able to utilize your assets and capabilities most effectively in Estonia? Or would you be able to use these somewhere else better?
17. How would this change your future plans of locating elsewhere?

Questions on entrepreneurial infrastructure and ecosystem

1. What are the factors of the new environment that you consider when considering a potential location?
2. Did you consider the cultural and regulative similarity to your departing country? In what sense?

3. Do you prefer similar or different environments? Why?
4. What would the location need so that it would be attractive to you?
5. Did you have any requirements for the location/ecosystem prior to locating? (IPR, taxes)
6. Did you consider your *learning potential* and the potential *knowledge gains* in a location?
    a. From which knowledge source or type would you profit in Estonia? Have you already? How?
    b. How do you consider your ability to absorb knowledge in Estonia? What is challenging?
    c. How is your technological sophistication compared to others in Estonia?
7. How do potential knowledge leaks influence your business decisions? (loss of knowledge)
8. Do you think that there are clusters in Estonia, or that Estonia could develop these? What type?
    a. How do you feel about clusters? Are they attractive to you and under what circumstances?

Locating strategy and costs

9. How much time did you research Estonia before locating? What kind of research?
10. When locating what was your *reasoning* regarding potential profit and costs in Estonia?
11. Are there any disadvantages that you experience in Estonia, that influence your ability to attain these business goals?
12. Are the costs of locating to Estonia high, compared to doing business in your departing country?
13. What are the sources of additional costs that you have when coming to Estonia (market and organizational)?
    a. How does your firm *deal with* these costs (capabilities, networks…) and how well?
14. How efficient was locating to Estonia?
    a. Meaning how suitable is the choice to your business?
    b. What do you think about the amount of costs & profit potential?
    c. How much uncertainty do you experience?
15. Would you be willing to carry higher costs if the potential for profit could be higher?
    a. Or would you prefer other environments? Which?
16. Would you prefer lower locating costs or a more suitable environment for your business? E.g. (infrastructure, knowledge available)
17. To conclude, where will you go next and why? For how long will you stay in Estonia?